

PART I

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Chapter 1

All the Commercial Mortgage Brokers I Know Earn at Least \$100,000/Year (Why This Is a Great Business!)

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Recently, I was taking a two-hour lunch before going to the title insurance company to pick up a \$25,000 commission check from a commercial mortgage deal I had just arranged. I was sitting at my table, slowly enjoying my gourmet meal, and watching the other people furiously gulping down their food so that they could get back to their jobs within their allotted 60 minutes (including driving or walking). I thought about how smart I was, or at least how much smarter I was than all of these other people scurrying around like little ants. Then it dawned on me that I wasn't any smarter than they are. I was just lucky to be a commercial mortgage broker. Lucky and blessed with this talent of putting together two important groups—those who have the money and those who are looking for the money.

I was still thinking about the commercial lending business as I drove off in my new SUV, and later on at the title company, while I lackadaisically leafed through the envelope to verify that there was indeed a check in the amount of \$25,000 payable to me. Then it dawned on me. I deserve this money (for one month's work) because commercial mortgage brokering is indeed "rocket science."

Of course I am being sarcastic. The commercial mortgage business has indeed been great to me financially and in other ways, but not because I'm so smart. In fact, I have been in negotiations with lenders while telling myself, "Come on, get it done; it's not rocket science." And it's really not. If you follow the steps in this book, you will see that commercial mortgage brokering is so easy that it almost doesn't seem fair to be paid so much for your work. That excitement about this business is what prompted me to pour my heart and soul into writing this book. I want you to make as much money as I make, or more. That \$25,000 check was no

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joke. Commercial mortgage brokering is a great business, and I know it can change your life. It changed mine!

Commercial mortgage brokering is one of the simplest ways to make a six-figure income (and more) without any additional education or training. The opportunity exists—for anyone willing to work hard—anywhere in the United States. The harder and smarter you are willing to work, the more money you can earn. A \$1 million annual income is very achievable in this industry.

This is a business where you can guarantee your client a better (lower rate, longer term, etc.) loan than they have now, so prospecting and finding clients is relatively easy. Why wouldn't they work with you and pay you for saving them a lot of money? I have trained a number of mortgage brokers who used to be stockbrokers. As stockbrokers and salespeople, they could tell their existing and potential clients only that they would try to earn them money. But as a mortgage broker, you can guarantee your clients results. A lower interest rate on a loan will instantly save your client money.

During the late 1990s through September 2007, there was more capital available to the real estate market than ever before in history. More people in the United States as an absolute number and as a percentage of the population had achieved home ownership than ever before. The main reason for this accomplishment was the availability of high-leverage financing. Historically, a person who wanted to buy a \$200,000 home needed a down payment of at least \$20,000 and in many cases \$40,000, which resulted in a 90 percent loan or 80 percent loan to value/purchase price, respectively. During the past five to seven years, the capital markets had become much more aggressive in their lending practices. They made loans in excess of 90 percent and sometimes even loans of 100 percent to 103 percent of a home's value. They based these loans mostly on the borrower's credit score, not on

the ability to actually repay the loan through monthly payments. Next, when home mortgage lenders had exhausted the ranks of borrowers with high credit scores, they came up with a new strategy to qualify borrowers. They set a very low initial interest rate on the loan, which enabled a very low monthly payment, even at the high level of loan to value. This low initial payment requirement would show that borrowers could cover their monthly home payment with their current income because the monthly payment was calculated with a below-market interest rate. That rate would eventually go to a market rate, and the monthly payment would also rise to a level the new homeowner could never afford.

These factors, coupled with the slowdown of the housing market and the economy in general, have caused a credit crisis or credit crunch. While the commercial mortgage default rate is less than half of 1 percent, all markets have been negatively affected by the downturn in the housing market. Many of the lenders for commercial mortgage-backed securities (CMBS) are also heavily involved in the residential market. CMBS lenders would fund commercial loans based on their ability to package those loans and sell them on Wall Street as a security backed by a commercial mortgage—a commercial mortgage-backed security. Venture capital groups that were buying residential mortgages were also buying these commercial mortgage securities, and they have slowed down dramatically. With no one to buy their securities, many of the well-known CMBS lenders had to pull out of the market and stop making loans. These CMBS lenders were responsible for funding in excess of 50 percent of all commercial mortgages over the last several years, and 44 percent of the 500 billion funded in 2007. Additionally, some banks have slowed down their lending or tightened their underwriting for a number of reasons. First, due to a slowing economy dictated somewhat by higher gas prices, these banks may see their loan deposits decrease—and

since banks are regulated by the government, which restricts the percentage of real estate loans they can make as an overall percentage of their assets (deposits), they may have to decrease the amount of real estate lending they are able to do. Second, all institutions are constantly looking to replace loans that are “run off” or being repaid, but with decreasing lenders in the market, they may be seeing less run off and therefore may have less appetite for new lending opportunities.

To you as a new commercial mortgage broker, it may seem like a bad thing that 44 percent of the capital has withdrawn from the marketplace or that some lenders are decreasing their new loan activity. But plenty of new lenders that have been sitting on the sidelines are taking their place. In fact, it is a better time for a competent mortgage broker than in the past, when borrowers could go directly to the CMBS marketplace and get their own loans. But with that funding source slowing down, what you do as a mortgage broker becomes much more important. You are providing a service to your borrowers with your experience and expertise in finding them the best possible loan in a marketplace where they would be hard-pressed to find good loans themselves. Also, no matter who the lender is and what appetite they may have for new loans, they are all always interested in good quality lending opportunities and will still fight for these higher quality or higher credit assets and higher-quality borrowers.

There is no better time than right now to start in this business. As I write, commercial interest rates are low and expected to stay that way for several years. At this time, the residential mortgage business is struggling with more stringent underwriting standards, declines in home values, and fewer capital sources. If you have been involved in residential real estate as an agent or mortgage broker, you should seriously consider at least starting a side business in commercial mortgage brokerage.

WHAT IS COMMERCIAL MORTGAGE BROKERING?

As you drive down any major thoroughfare in your city, you are surrounded by commercial properties such as office buildings, retail centers, apartment complexes, and industrial structures. The vast majority of these properties have mortgages on them. In a nutshell, commercial mortgage brokering is the job of helping commercial property owners find the mortgage that best fits their need for refinancing, building, or buying property.

This book takes you through the entire brokerage business, from underwriting the loan to locating the best lenders to closing the loan to getting paid a brokerage fee. You will learn how and where to find better financing for all the basic product types. Getting into the commercial mortgage business can help you reach your financial goals—additional monthly income, financial independence, or retiring at an early age with money in the bank and no reliance on the Social Security system. The rest of this chapter outlines some benefits I have enjoyed and watched others enjoy in this career.

ALL THE COMMERCIAL MORTGAGE BROKERS I KNOW EARN AT LEAST \$100,000/YEAR

Only 3 percent of workers in the United States earn more than \$100,000 per year. I don't know any commercial mortgage brokers who don't earn at least that much every year.

When I worked at Domino's Pizza in corporate accounting, I was making \$18,000 a year. This was many years ago, but it does give you an idea of a corporate salary. Let's compare it with my first year in production as a commercial lender at Heller Financial in Westwood (Los Angeles), California, just three years

after I left Domino's. My income had more than quadrupled to \$75,000.

Fast-forward to today. I will produce in excess of \$400,000 in fees this year. And I want you to be just as successful as I am.

Here's an example of how the commissions work in commercial mortgage brokering. A smaller retail center—say, a building with a nail salon, pizza store, video rental store, and sandwich shop—will commonly be valued at \$1 million to \$1.5 million for the real estate. If you broker a loan at 75 percent of the value or \$750,000 to \$1.125 million, you would be paid a fee of \$7,500 to \$10,125 for placing that loan (See Figure 1.1). And that is only a small deal, and there is one on every corner. If you consider a two-to four-story office building, that fee would range from \$15,000 to \$60,000. That means you have to broker only a handful of loans to earn a six-figure income. Or you can work more deals and double, triple, or quadruple that income. The average commercial broker in the United States earns annual fees in the \$300,000 range.

There is tremendous potential in this industry. It is literally an untapped resource just waiting for you to learn the business. In 2006, commercial volume topped \$300 billion. The fees paid out on those loans topped \$2 billion. In 2007, the commercial real estate mortgage volume exceeded \$500 billion.

FREEDOM

This is a business in which you can truly call your own shots. Work as much or as little as you like, make your own hours, and make as much money as you want. Another benefit is not being chained to a desk every day. I am usually out taking pictures of properties, meeting with potential clients, and looking for deals. In this business, driving around is actually working.



Figure 1.1 Typical Single-Story Office Property

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It is definitely not a nine-to-five job where you have to be in one place for any length of time. You can work from your home, your car, or even on vacation. The downside of this is that you are always working. When I'm supposed to be sightseeing on vacation, I'm often thinking, "I wonder what they are building there" or "boy, that's a deal I wish I'd financed."

PRESTIGE

There is nothing like the prestige that comes from working on the largest deals in your town. Not only are they the most visible but many of the things happening in your area can be fascinating developments. It is extremely rewarding to be in on the ground floor of new developments that 99.9 percent of the town doesn't even know are happening.

It is satisfying to be driving around and seeing properties that you actually helped bring to fruition. It really is a valuable service.

On a daily basis, I am working with the biggest developers in the city. They are typically the people with the most cash and clout. It's a great group to belong to.

WHY DON'T MORE PEOPLE GET INTO COMMERCIAL MORTGAGE BROKERING?

This industry is barely tapped. Right now on Amazon.com, there are 1,852 books on residential lending. Do you know how many there are on commercial lending? Just two. The reason is that people think commercial lending is too difficult for them to be successful. It sounds so big and scary, doesn't it? People think residential lending is much more accessible and easier to understand.

That is true in the sense that most of us have borrowed to purchase our homes so we know how a home mortgage works. But commercial lending is just as accessible, as soon as you understand all the pieces of the puzzle that I lay out for you in this book.

You are going to learn tons of insider information that no one has dared share with you. I am about to let the cat out of the bag.

AN INEFFICIENT BUSINESS MODEL LEADS TO OUR SUCCESS

The reason we can be so successful in this industry is that it is an inefficient business. You can get paid just by introducing your clients to the lender that's best for them. If they could find the lenders themselves, they would not need us. But they can't, so we provide a service that helps people and helps the economy, and we are paid well for that service.

The key to being a good dealmaker in this industry is to have as much knowledge of loan programs and lenders as possible. The knowledge that I am going to share with you in this book is going to put you head and shoulders above most of the competition. However, you still have to do the best job possible for your clients on each and every deal. You are providing a very valuable service and are a big part of a successful commercial development or acquisition.

LIVE WHEREVER YOU WANT

I have done commercial lending in Los Angeles and Albuquerque. I also get to travel to smaller towns in my region to find deals. The beauty of commercial lending is that the fundamentals are the

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same everywhere in the United States. The larger cities typically have the bigger deals, meaning bigger paychecks, but they also have more competition.

Here are what I see as the benefits of the larger markets:

- Exciting
- A lot more happening
- Change happens faster
- Bigger deals
- Bigger paychecks

And here are what I see as the benefits of the smaller markets:

- Loyalty
- Not as much competition typically
- Steady business
- Reliable income
- Better quality of life

For your particular situation, you will have to weigh the pluses and minuses of these trade-offs and decide what best fits your life goals and the goals of your family. But if you ever decide to move, your lenders will follow you to almost any market in the country.

NO SPECIAL EDUCATION

Believe it or not, there is no required education to be a commercial mortgage banker. Even residential mortgage brokers are required to attend classes and pass tests!

So instead of paying thousands of dollars to sit in residential classes for weeks on end, and then pass an exam, you can read

this book and be up and running as soon as you finish. It truly is amazing.

NO LICENSE REQUIRED IN MOST STATES

This goes hand in hand with no education required. Because there are no educational requirements for becoming a commercial mortgage broker, there are also no governing bodies or licenses required. What this means is that as soon as you finish reading this book, you are a commercial mortgage broker.

It really is amazing and just another great example of how low the barriers to entry into this business are.

Industries with low barriers to entry (ease in starting up a company) in today's society are very hard to find. Let's review the reasons that there are low barriers to becoming a commercial broker.

- Low or no start-up costs
- No educational requirements
- No licenses required
- Work from home
- Work from anywhere in the United States
- No cap on earnings
- Huge annual industry volume
- Getting in ahead of the curve
- Competition doesn't know everything
- Imperfect marketplace—not a free exchange of information

Good luck!

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