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PRIVATE LENDER



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EVALUATING
YOUR DEAL
CHECKLIST

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SUCCESSFUL
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ACCOUNTABILITY
A WAY OF LIFE

SPECIAL
FEATURE

Ethics is at
AAPL's Core

Lender Limelight:

JACK HELFRICH

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Place Among the Elite*

PAGE 22

Ensuring Your Portfolio is Solid

When assessing potential projects, it's a good idea to run through a checklist of set procedures.

by Robert "Bobby" Montagne



No lender wants to be left holding the note on a property that won't sell or has to be foreclosed upon. The goal of an ethical and successful private lender is to build mutually profitable relationships with builders, resulting in gains for both parties and, in turn, additional deals. Due diligence before funding the deal is in both parties' best interests. A private lender taking the time to

learn the building industry also can provide value-add opportunities for the borrower.

When assessing potential projects to include in your portfolio, the idea of following set procedures before deciding "yea" or "nay" on each investment holds significant merit. A detailed checklist helps you drill down and evaluate the many important considerations of the deal so you can make an educated

decision about funding. What may seem like a fair amount of additional work up-front pays back many times over by helping you select the best, most profitable deals.

Many lenders are comfortable qualifying the property and do so, to some degree, for each deal. But qualifying the borrower is just as important. Remember, it's not only the horse that wins the race, but the jockey as well!



Qualify the Property

A plethora of data for nearly every property is readily available. The key to this abundance of data, however, is proper interpretation and extrapolation to gauge the viability and profitability of a potential deal.

Perform exhaustive property research

The tried and true method of identifying prospective properties is through a multiple listing service (MLS). An MLS listing offers hundreds of data points for nearly every residential property, including sale history, days on market (DOM), physical description, lot size and nearby schools. You can obtain even more information about the neighborhood by checking local crime statistics and list-servs for current issues or problems.

Analyze results with an enhanced CMA

Analyze results with an enhanced CMA: You can then use the collected data to create a detailed comparative market analysis (CMA), which examines the sales statistics for comparable properties in the same neighborhood. A CMA also enables you to analyze the velocity of trading in the neighborhood, the average days on market and the quality and level of finishes. This

data helps you gauge the appropriateness of the proposed renovation and expected time on market. DOM data is especially valuable when determining the loan term and vitality of the submarket. You can further enhance the analysis by overlaying the CMA with additional knowledge of the neighborhood, quality of other renovations and any other adjustments that you feel are warranted.

Check existing liens or encumbrances: Tax and other public records are another important element of property research.

You should know whether any taxes are owed on the property, encumbrances exist or title is unmarketable. Some sellers of distressed properties have complicated ownership and title issues, which are best discovered ahead of time. It is less than ideal, though somewhat common, for a borrower and lender to spend a fair amount of time and money on a project, only to find out just before closing that serious title issues cannot be resolved without delay and additional expense.

Check zoning regulations

Can the addition that your borrower is planning even be done on the lot he wants to buy? Local zoning laws, especially in more

urban neighborhoods, are very specific about how much building per lot square foot is allowed, how close to the property lines the addition can be, and so forth. Make sure your borrower understands these rules and ratios before he buys the property. And don't forget about homeowner's associations—they often have rules about everything from paint colors to selection of materials.

Engage eyeballs

It is imperative to make site visits to the property and see the neighborhood first-hand. You might find that the MLS pictures are overly flattering or incomplete, or that adjacent properties are dilapidated. Observing the property and its surroundings in detail can give you a first-hand check of all of the MLS and CMA data and give you a true feel for the neighborhood.

Get Independent Appraisals

A full-blown third-party appraisal might be expensive, but it gives you greater assurance that the resulting price estimate accounts for all significant factors. You can save money by settling for a simpler broker price opinion (BPO), but these are less intensive and detailed.

Qualify the Borrower

The other half of the lending decision rests on the profile of the buyer. In private money lending, lenders often care more about the value of the property than the creditworthiness of the borrower. That said, you may not want to lend to a person with, for example, no experience managing a rehab and a checkered past. Trust is an important consideration in any relationship, and the lender-borrower relationship is no exception.

Responsiveness

Does the potential borrower respond quickly to your questions and your requests for information? You shouldn't have to chase material information from the borrower. It's your money, and even though the loan is collateralized, you want to feel that the borrower understands your intense interest in the success of the deal.

Preparation

Does the borrower have a realistic plan and budget for improvements? You should be confident that the borrower's scope of work represents the tasks that are necessary and sufficient to achieve the target resale price.

History

Notwithstanding the nature of a private money loan, it's wise to check the credit of borrowers for past bankruptcies, foreclosures and liens. Not necessarily a deal breaker, but a compelling property in the hands of a questionable borrower may not make for a solid deal.

References

Does the flipper/builder have a track record? What do former lenders and associates have to say? The borrower may provide you with a list of references, but it behooves you to contact others who are not on the list, if possible, and see what they have to say. You can also contact the owners or tenants of properties the borrow-

er has flipped and find out if there have been problems with the condition of the property.

Secret Sauce

It's very important to get to know your borrowers face to face, establish a relationship and form a solid human connection. Some lenders never meet their borrowers, which means they don't get to evaluate firsthand whether the borrower is someone they can trust. Look for traits that help achieve success: organization, intelligence, responsibility, skill, empathy, maturity and honesty.

In summary, many lenders know and follow the steps just noted, but the real way to ensure you are financing the right deal is to get to know your borrowers and establish trusted relation-

ships with them. This will help you to key in on any red flags that could lead to potential defaults. In addition, a trusting relationship means you can assist with problems sooner rather than later. In the long run, this will help encourage repeat borrowers, a win-win for all concerned. ■

ABOUT THE AUTHOR



Robert "Bobby" Montagne is a real estate entrepreneur with three decades of experience in commercial and residential property development, finance and sales. Having successfully overseen \$15 billion in career transactions, he is among an elite class of real estate innovators that have consistently delivered high-quality returns to partners and investors. A native of Fairfax, Virginia, Montagne earned a bachelor of science degree in economics with honors from George Mason University and a master of business administration from Virginia Tech.



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