

As Seen in



BRIDGE LENDERS ARE MORE IMPORTANT THAN EVER IN TODAY'S CHALLENGING MARKET

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If a rising tide lifts all boats, then it must also be true that when the tide goes out some boats will hit the rocks and get smashed to smithereens. For the moment the capital markets are running scared, and the days of easy money are a fading, distant memory. At this time in the market cycle only those commercial mortgage bankers and brokers who are adept and nimble enough to think outside the box will be able to flourish.

W Financial Mortgage Fund I, LLC is a Northeast-focused, direct private bridge lender, focused on making first mortgage loans, second mortgage loans and, on a very selective basis, mezzanine loans on a variety of property types in the New York Metro area and other major markets on the East Coast. We don't ordinarily have the opportunity to make 50 percent loan-to-value loans on brand new, 25-year, triple-net-leased Walgreens drugstores, but because of the recent dislocation in the capital markets, we did close such a loan recently. Why? As is so often the case with bridge lending: timing. A 1031 tax-free exchange deadline.

The deer-in-the-headlights syndrome affecting many banks and CMBS lenders that many of you have been experiencing of late created this opportunity for us. We solved the borrower's immediate problem by closing in 8 days and preserving his 1031 exchange, and by doing so we gave the mortgage broker plenty of time to deal with the choppy capital markets and optimize the permanent loan. W Financial is likely to be taken out in 3 or 4 months. While we will be sad to see that ultra-high-quality \$3.9 million loan leave our portfolio, short-term lending is the very essence of what we do, and in today's market this type of story is being told more and more often.

A bridge loan is an interim solution - useful if deployed correctly and often the difference between seizing an opportunity or losing out on one. Although bridge lenders are more expensive than traditional lenders, since the time the bridge loan will remain outstanding is so short (typically 6, 12 or 18 months) the overall impact on the deal's economics is usually minimal. Bridge lending is just one tool in the commercial real estate finance professional's toolbox, but when that tool is needed, however, the time frame is usually compressed and the need for dependable execution is very high. Errors are unacceptable as they may cost your client a great deal of money. Of course, your

credibility is on the line every time you recommend any bank or CMBS lender to a valued client, but time is even shorter and the stakes tend to be higher when a bridge loan is needed.

The majority of our recent new loan requests are from commercial mortgage bankers and brokers under a tight time frame. We engage in a “triage” approach to quickly separate new loan requests into three groups: 1) loan requests that we are not interested in, that we see as fundamentally flawed. We always seek to give a quick “no” to these requests so that the broker and client can seek other solutions, 2) loan requests that we think are credible but are outside our “box” for one reason or another, (geography, property type, sponsor profile, leverage, time frame, etc.). Again we seek to give a quick “no” but may be able to recommend another lender who we think might like the deal, and 3) loan requests that we are interested in and would like to learn more about. We will aggressively pursue these transactions quoting terms that we can reliably deliver. Integrity and certainty of execution are hallmarks of our approach to bridge lending.

The current troubles in the capital markets have created a surge in bridge loan applications. With many traditional and CMBS lenders “frozen,” and for the moment watching and waiting on the sidelines, effective bridge lenders now have an opportunity to quote on and close deals that they would never have ordinarily seen. The current marketplace is a rare window of opportunity, but we believe that many clients will return again and again for short-term loans.

Criteria: The short answer is good real estate, often real estate in transition with good sponsors and multiple exit scenarios. We favor and focus on pure real estate plays where we can become comfortable with the underlying asset(s) both on the basis of current value and projected value upon completion. We focus on the sponsor’s ability to execute his business plan (based on factors ranging from track record and experience to balance sheet).

We tend not to lend on “specialty” real estate such as nursing homes or assisted living, sports facilities, amusement parks and the like. We will consider fully-entitled land deals in locations we find compelling. We recently closed a \$5.75 million loan for the acquisition of a defaulted note being acquired by experienced opportunistic investors from a major investment bank. We never shy away from complex and challenging deals and structures and when necessary, we are able to close deals within very short time frames.

Rates: In general, depending upon the underwriting and the merits of a particular deal, our rates for first and second mortgage loans range from 11 percent to 13 percent with anywhere from one to three points for a 1-year deal. Most deals have extension options available.

Brokers: Commercial mortgage brokers are our most important source of both new and repeat business. W Financial always seeks to protect brokers and routinely includes them in the term sheets and commitment letters to ensure that the broker’s fee gets disbursed at loan closings. Cultivating lasting relationships with the brokerage community is of key importance.

In conclusion, as long as there are time-of-the-essence closings, 1031 tax-free exchanges and banks that drop the ball at the last minute, bridge lending is here to stay. Even if bridge lending only accounts for one in ten, or one in twenty of your loan closings, it pays to establish a relationship with a quality bridge lender well in advance, because when the need does arise, the only things you will know for sure are that your client is in the hot seat, time is very, very short, and the margin of error is non-existent.