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Competing Like Maniacs…for Your Loan

EXCLUSIVE

By Tom Sherlock, co-founding principal of Talonvest Capital Inc.

Commentary

COSTA MESA, CA-Before the NFC Championship Game in Atlanta this year, San Francisco 49er head coach **Jim Harbaugh** claimed his team would be "competing like maniacs" that Sunday afternoon in late January. Football fans saw exactly what Harbaugh described as his team engineered a come from behind victory that propelled the 49ers into the Super Bowl.

It's not often that you'll see a direct parallel between an NFL coach's description of his team and a **capital market** professional's assessment of the state of the lending market—until now.

Lenders may not like seeing this in writing, but they are truly competing like maniacs to win loan business today. Real world examples support this observation, and validate a second perspective as well…that at the present time, unlike the past cycle, debt is not a commoditized product.

Very recently, an experienced owner-operator of multi-tenant industrial properties wanted to refinance an existing bank loan secured by an urban in-fill property. Ten different lenders, ranging from banks to conduits to real estate investment trusts, competed for this business. Surprisingly, the initial proposed loan amounts on this stabilized property varied by $1.6 million (an approximate 15% variation) and the quoted interest rates differed by almost 50 basis points (0.50%)!

Through a closely managed, competitive bid process, the borrower was ultimately able to choose between two conduits and a REIT. The net result of the competition was a cash-out refinance at a larger loan amount than originally requested, and an interest rate that was lower than the lowest initial bid. Further negotiation caused the competing lenders to provide more leniency / flexibility in the amount of required reserves, the cash management account, and the prepayment penalty.

In another situation a large, privately owned self storage company sought a lower leveraged refinance on a portfolio of storage properties located in multiple states. More than 20 different life insurance companies, banks, conduits, and REITs were presented the package. Of these, eleven seriously sought to make the loan. As the competition heated up, the interest only term was stretched out from two to five years, lender fees were reduced significantly, and collateral substitution was offered within the portfolio of assets. A key to success in this circumstance was bringing different types of lenders into the bid process. That heightened the competition and resulted in loan structure improvements that would have been very unlikely had the competition been limited to one type of debt provider.

In a final real world example, a sophisticated commercial developer wanted to refinance a bank loan secured by an office building that hadn't reached full stabilization. Bridge lenders are not as plentiful in the market as permanent lenders, but the ripple effect of an increasingly healthy CMBS lending market has led to several new entrants into this lending segment. Despite having fewer potential competitors in the bid, there were still nine viable options including finance companies, credit companies, REITs, and debt funds. The battle to win the business was fervent and the borrower was able to benefit from a 45 basis point (0.45%) reduction in the interest spread, some cash out, a less stringent cash flow test, and the inclusion of an interest reserve for the loan.

As each instance showed, lenders are truly "competing like maniacs" for your loan business. And, enormous benefits are accruing to those borrowers strategically approaching the debt market. Over $434,000 of cash flow savings will be realized by the owner of the industrial property because of the fifty basis decrease in the interest rate. The extra three years of interest only payments on the self storage portfolio will generate over $1.54 million of cash flow savings for that borrower. The combination of cash back, lower interest rate, and interest reserve on the office building loan will result in more than $906,000 of cash benefits to that owner. The competition amongst lenders is fierce; and the only way you can win the Super Bowl…or its financing equivalent…is to get in the game.

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