

## “Pristine” Deals Only Need Apply



# The New Reality Loans

By Scott C. Seckel

Earlier this summer, no less a real estate luminary than Donald Trump called into a television news chat show, sounding less Manhattan-skyscraper-mogul and more a guy who can't borrow to buy the lot next to his garage.

"We've got ourselves a problem that banks are not loaning money, no matter who you are, no matter how rich you are," Trump told Fox News' "On The Record." "If you want to go and borrow money to create a big job, to do some great noble thing where a lot of people go to work, you cannot go to a bank to borrow money ... The banks are not loaning the money."

Without knowing Trump's immediate business (usually great, if not necessarily noble, things where lots of people go to work), the remark rings of bitter insight gained by experience. And of a punctured ego. Yet, it's telling. If Donald Trump can't get a loan, where do you think *you're* going to go?

The answer is like life in ancient times. It's both a lot better and a lot worse than you imagined.

### WHAT'S NOT GOING TO HAPPEN

There are two sectors in lending: conforming and non-conforming. Non-conforming can be anything from the credit perspective to jumbo loans. In the conforming world, almost any lender will give you a loan if you meet the criteria.

"Non-conforming is shut down," said Michael Fratantoni, vice president of single-family home research at the Mortgage Bankers Association. Investors have always been held to a higher standard, and that's truer today than ever.

"Investor loans are only being done under very pristine conditions," Fratantoni said.

What's pristine?

"The ones that are lending? Nothing less than 20 percent down and a 740 FICO."

Ask what investors can do in this market, and Fratantoni says, "REOs for cash. We're in a deleveraging environment: that means larger down payments for lots of investments, especially real estate investment. It really is going to be market-specific."

In micro markets where the bottom still hasn't been reached, like Detroit and Riverside County, California, nobody is lending anything at all. Forget about it, Fratantoni said.

"Our home price outlook is in line with what a lot of lenders are seeing: continued declines in markets but at a slower pace," he said. "2010 will be a stagnation year where prices stabilize."

2011 is predicted to be the year when prices start to rise again. "With that kind of environment, no one is going to be in a hurry to lend to investors," Fratantoni said.

### THE NEW RULES

Banks may not be in a hurry to lend to investors, but they will lend to investors — under the right circumstances.

Bill Howe, vice president of the National Mortgage Banker's Association and owner of Howe Mortgage in Scottsdale, Arizona, took a deep breath.

"Are you sitting down?" Howe said. "Ninety percent loan to value is about as high as you can go. It'll cost 3.75 points."

Needless to say, good credit is a necessity. And what else will banks require? "Everything, of course, including six months of reserve and all the properties you own."

Stearns Bank and Wells Fargo will go to 90 percent loan-to-value. "A lot of the people I deal with will go as high as 80," Howe said.

Banks want appraisals and repairs to close deals. The Federal Housing Administration has a loan called a 203(k) rehab loan. The borrower can get just one mortgage loan, at a long-term fixed (or adjustable) rate, to finance both the acquisition and the rehabilitation of the property. Eligible properties must be one- to four-family dwellings that have been completed for at least one year.

"You do not have to do the repairs first," Howe said. "The money to fix it is escrowed, just like a construction loan."

## ACQUIRING

Investors need to be prepared to put at least 25 percent down. The more money you can put in, the more likely you are to get the loan.

"You take a lot of the risk out by putting in some money," Howe said, then admitted, "We're not doing many investor loans ... Getting the contract approved could take some time. The truth of the matter is most of their investment money we see flowing in to the market is cash, some of it hard money."

### BE SMART

CM Capital Services has been underwriting loans from \$200,000 to \$25 million in eight Western states for more than three decades, and they've seen no reason to stop lending in today's market. The Nevada-based company writes short-term hard money loans. While they won't touch commercial real estate these days, residential real estate is more than welcome, including, surprisingly, one product that conventional wisdom considers moribund: new homes.

"We're a little bit more of a nimble lending source," chief executive officer and president Todd Parriott said.

"Some of the stuff we've actually started to lend on are private builders in

the area," he said. "They've bought finished lots at \$30,000, (and) CM is loaning \$15,000 per finished lot. We know the replacement cost of these developments is \$60,000 a lot. They're going to make a nice profit. That's where we've started to lend money again — where it makes sense."

Where it doesn't make sense is a would-be borrower coming in to fix a loan at a valuation from three years ago.

"The values they purchased the land two years ago don't exist any more, so we can't get the numbers to come to fruition," Parriott said.

The requirements for cash going into a deal are higher, naturally, but Parriott's first question is not about reserves.

"Where does the long-term financing come from?" he said. "That's the biggest thing we're looking at. We're a short-term lender. If they can't find that, that's our biggest 'No' these days."

### YES! (Finally)

Put the gun down and stop knotting the rope. There's a big beam of sunshine out there in lending land.

"The community banks (are loaning)," chuckled Rebeca Romero

Rainey, chairman and chief executive officer of Centinel Bank in Taos, New Mexico. She spoke for the Independent Community Bankers Association of America. Rainey's grandfather started Centinel Bank when he couldn't get a loan in northern New Mexico in the 1960s.

"The rules in community banks haven't changed," Rainey said. "What's changed is the big spec market for the national banks. We're still doing the same loans we were two years ago, five years ago."

Requirements are still more stringent, as they are everywhere else. However, if investors have marketing plans, historical financials, business plans, 20 to 25 percent cash, build-out, and all the project details, come on in to your community bank.

"It's really about understanding what the investor is doing," Rainey said. "If we're not going to act on it now, we wouldn't have acted on it five years ago."

### RESOURCES

Centinel Bank  
[www.centinelbank.com](http://www.centinelbank.com)  
575-758-6700

CM Capital Services  
[www.cmcapitalservices.com](http://www.cmcapitalservices.com)  
877-739-9094

Howe Mortgage  
[www.howemortgage.com](http://www.howemortgage.com)  
602-200-8100

Independent Community Bankers of America  
[www.icba.org](http://www.icba.org)  
202-659-8111

Mortgage Bankers Association  
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202-557-2700

National Association of Mortgage Brokers  
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