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What to do when loan is due or prop. is ready for purchase

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For the private commercial real estate investor, the current question is what can be done when a loan is coming due in the near term or a property is ready for purchase?

The answer more times than not in years past was to go to the CMBS market and secure a 75-80% loan to value (LTV) permanent, fixed rate, non-recourse loan. Today, the answer is to seek funding from alternative sources until the credit/liquidity crisis subsides.

Insurance companies are not always a good source for the smaller investor with lesser than 'institutional grade' properties or tenants. Banks were not been competitive with the conduit market. But, elements of lending are changing.

Today some financing sources are offering a wide range of products that are excellent alternatives during this difficult credit crunch. These loans can be non-recourse for LTV's which are 65-60%, but these lenders can also offer higher LTV loans with recourse limited to the differential over the non-recourse amount.

These lenders offer 3 and 5 year floating rate, interest only in some cases, Libor based transactions. Libor is down from its recent highs and offers a great index for spreads. Finally, in some cases there are sources that will provide an option to fix with a swap that still renders a rate under 6%.

Other creative institutions are offering shorter term, 5 year fixed rate financing tied to the five year treasury, which in itself is also a low index (3.00). Spreads over the 5 year T-Bill can be as low as 175 and do range up to 225-250 offering the borrower in need with an attractive rate, albeit for a shorter term.

Most of these deals carry the right to a rate renewal, at the borrower's election at the conclusion of the first 5 year term, at no additional cost. These loans do carry 30 year amortization, which may be negotiated out in some cases for a couple of years. Recourse can be limited for a full loan but a lesser LTV will be non-recourse. In some cases these loans are with 175-200 spreads and due to that aggressiveness in spread carry interest floors.

Finally, there are lenders in today's market who are making and holding 'on book' fixed rate five, 7-year loans which may be interest only. Seizing the opportunity to fill a void in the marketplace created by the current exit of Wall St. lenders, these lenders offer reasonable spreads, non-amortizing, non-recourse loan products. These loans are written up to 80% loan to value and offer an excellent opportunity for the borrower with a loan request in excess of $5 million.

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