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Non-bank lending explodes in 2013 and 2014 Q1, but why?

May 15, 2014 - Front Section

Truth be told, I am not a true suit and tie underwriter or real estate financier. I am a real estate developer at heart. In addition to underwriting and lending with Conquest Capital Partners, my other company, Gadles Development, has been rehabbing existing homes and building new homes since 2009. During our growth we did not have the ability to borrow from banks, namely because the down payments were too high or turn around time to closing was too slow. Enter, non-bank lenders.

There are many reasons that I think non-bank lenders are exploding, but for the purposes of brevity and this article, lets limit it to three.

First off, non-bank lenders typically approve deals very fast, sometimes in as quickly as 12 hours. Traditional banks can take up 4 weeks to approve a deal. As a developer, there is nothing worse than giving a large deposit with a purchase and sale (P&S) and hoping your bank will approve the loan while you have all that money at risk. Non-bank lenders are generally determined to approve, and commit to deals very quickly allowing the developers to focus on project execution.

The second reason: In my real estate development career there have been occasions where I have found an amazing real estate deal that I have worked hard to find, analyze and put under contract for literally pennies on the dollar. Banks do not have an appetite for a great deal as much as great borrower with great credit and plenty of cash in the bank. Our firm is an asset based lending firm. We evaluate the asset first, and the borrower second. From our perspective, the borrower does matter, but not nearly as much as the asset. If the borrower ultimately cannot perform our company has the capacity and infrastructure to step in, take the project to the finish line. Banks do not have this ability.

The third reason non-bank lenders are growing so rapidly is because of the fluidity of liquidity. As a developer the greatest need is a lender who really understands the real estate development arena, not just the lending business. Being an active real estate developer as well as a lender allows me to go shoulder to shoulder with our borrowers understanding their needs. As a lender I know where we can get hurt if we advance funds inappropriately, but I also have a strong grasp on where our margin of safety lies, finding the perfect balance and flow of funds that can keep real estate developers moving through projects swiftly, while always keeping Conquest safe. Further real estate development is a competitive business. Keeping a smooth flow of capital with our borrowers, we can allow them to aggressively pursue other development opportunities becoming scalable developers. Our business model is focused on working with repeat borrowers who have a proven track record. If we can keep capital flowing safely but freely through current projects, we can allow our borrowers the latitude to be competitive bidding on new projects.

Fast, flexible financing is the new wave. Developers no longer want to wait and hope they qualify or the project qualifies for bank financing. Non-bank financing is the direction of the real estate market place.

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