

CLIENTS CAN'T GET FINANCED?

THEIR SECURITIES PORTFOLIO COULD PROVIDE THE LOAN THEY NEED ... AND FAST!

BY JOSEPH ANDHAZY

PROBLEMS, CONFUSION AND RED TAPE

Many have experienced the long drawn out process of applying for a loan only to discover after several weeks, and in some cases months, their application was denied. Several reasons are offered for the denial but the bottom line is, you don't have the financing you need to accomplish your goal.

Reasons for denying loans come in many forms - skeptical Income, home value is too low, credit scores are marginal, too many properties financed or maybe the borrower is not properly documented in this country and the list goes on. Being denied financing is a harsh blow mentally which typically generates emotional distress and sometimes physical illness. Where do you turn? What other options are there?

We've all heard and seen advertisements from the auto industry promoting the "Sign and Drive" concept to take home the car of your dreams "today," signaling the process is simple and easy. However in real estate, it appears the application process has always been, and will continue to be, a complicated comprehensive affair. And it is more so now after the mortgage industry meltdown creating additional regulatory licensing and disclosures.

I have friends wanting to refinance their homes to take advantage of the current low interest rates. They're not looking to cash out. They have great credit, great jobs, low income to debt ratios, their loan-to-values are well below the maximum qualifying standards, and they're waiting more than 90 days to get to settlement! Some are facing interest rate lock expirations and are being charged fees to extend the lock period. How insane is that!

I've also heard stories about individuals who need cash now - today, to pay off liens, send off a tuition payment, get cash for a business matter or to ward off an emergency at hand. They are literally at the mercy of the same bureaucratic processing and underwriting backlog nightmare. In the commercial world, it's even worse.



Ninety to 120 days to settlement is considered light speed. In the scenarios mentioned here, I am referring to attaining financing through traditional mainstream banks and mortgage companies. But what if you just can't wait that long? You're positive you will get approved, but if timing is an issue what other options are there for securing the financing quickly.

You may find a portfolio lender who could act quicker because their decisions are made "in house" and they're not selling the loan off to the secondary market. However, their customized qualifying criteria for underwriting may be stricter than the Fannie / Freddie rules because they're a small organization concerned about minimizing risk. You could consider finding a private lender who will act relatively fast with limited documentation requirements, but the amount of cash out will be restricted because of loan-to-value and use of funds. Most private lenders do not like the cash out to be used for anything other than making improvements to the subject property or for the paying off of personal debt and other liens. A private loan will also cost significantly more in fees and interest rate and is only for short term purposes.

Now and for the foreseeable future, those wishing to take no cash out and just capture a low rate, should apply now, and wait out the current process of underwriting. Until our elected officials in Washington decide the American people deserve a better system and change the process, we are stuck with what we have. The old saying of "They're only selling Chevys so you are stuck with driving a Chevy". [Let's be clear, this is just an analogy. I don't have anything against Chevys. I own one myself.]

The current economic environment has forced many brokers to get out of the business. Banks and large mortgage companies have scooped up a large portion of these little shops, and new regulations are causing backups. Loan officers are now being directed to retrain to stay in compliance just to sell the same old financing, let alone learn some new and innovative niche lending techniques.

As there are many scenarios in the world of lending, we could spend hours, even days speculating major issues, horror stories and diverse scenarios about residential deals and commercial deals. Just talk to any experienced loan officer and the stories will pour out endlessly.

As this is the Niche Report, naturally we like to focus on niche lending concepts. So in the spirit of creativity, let's shift gears and travel down a new path for a moment. I would like to bring to your attention to another method of borrowing money, especially if you

are not having any success getting qualified, growing impatient trying to get to settlement or need cash now. Mind you this is just an option to consider, it's not for the masses of mainstream borrowers, but the benefits are real and could be the dramatic turn-around to your situation and an answer to your borrowing needs.

SECURITIES BASED LENDING (SBL)

Unlike a traditional mortgage, Securities Based Lending (SBL), and more specifically Securities Based Line of Credit (SBLOC) is based on the strength of a borrower's securities portfolio as opposed to the strength of the borrower's credit, source of income, employment history or the type and/or number of properties being financed. As a matter of fact, none of the traditional underwriting criteria are used to qualify. The only requirement is for a borrower or borrowing entity to own securities such as stocks, bonds or mutual funds in a portfolio having some level of market value. The concept of the SBL is based on lending against those securities at a percentage of their value. It is more like a traditional margin loan offered by any investment brokerage company. And of course, the more solid the securities, the more you can borrow against them. Treasury Notes and Bonds will render the highest liquidity value and therefore lending against them at 90% of their value is very typical.

Now you say, well I don't own any securities; I just have this lousy retirement plan that's been tanking for the past three years. Sorry to say, pension or retirement plans do not qualify. You can however open up a securities account if you have the means. For instance, if you own a company and you have cash assets to purchase the securities – in effect, trading one asset for another, then the company can submit that portfolio to qualify for the loan against it.

Unlike conventional financing, the application and underwriting process is straightforward and quick. The client needs only to submit a simple application along with their most current brokerage account statement and a term sheet will be issued within 24-48 hours. The Line of Credit can be made available within a week as soon as the client's securities are moved into the new brokerage account.

As part of my research, I consulted with Midtown Capital Group based in Manhattan, New York. Mr. David Borish, President and Mark Stevens, a Director of SBL, have created a program to help individuals and companies use their securities portfolio to finance unique scenarios at lower than market interest rates. One note to make >

regarding Midtown's program in comparison with others offering similar SBL loan products is their program allows the borrower to retain title (ownership) of the securities during the loan term period. This is a huge benefit. Most other SBL providers will require the borrower to surrender ownership during this period, only retaining "beneficial ownership" receiving the dividends earned.

Basic SBL loan features include -

- Revolving line of credit – Only charge interest on what you use.
- Floating or fixed rates available – With the ability to lock in a fixed rate at anytime.
- Interest rates as a low as 1.5% - Interest only.
- Loan to value ranging from 70-90% of the value of the securities.
- Securities remain titled in client's name.
- Limited documentation - No credit or income requirements.
- No prepayment penalty - With variable rate.
- Dividends paid directly to client (or) credited against interest.
- Client receives 100% of portfolio appreciation.
- Wide range of eligible securities.

- Foreign nationals with foreign securities accepted.

Eligibility -

The following securities are generally acceptable:

- NYSE, AMEX and NASDAQ stocks whose values exceed \$5.00
- U.S. mutual funds held over 30 days
- Treasury Notes & T-Bills
- Corporate and Municipal Bonds
- Fannie Mae & Freddie Mac CMO's
- Options

The following are generally NOT acceptable:

- Pink sheet or OTC BB stocks
- Restricted stocks
- Any stocks whose value is less than \$5.00
- Any securities held in a 401K or Individual Retirement Account (IRA)
- CMO's (Excluding Fannie Mae & Freddie Mac ONLY)
- Stand By Letters of Credit
- Bank Guarantees ➤

For Real Estate a SBL can be used for a wide variety of purposes, including but not limited to:

- Generating or increasing down payments
- Outright purchase of real estate
- Paying down existing mortgages
- Covering hard costs of real estate investments
- Temporary or “Bridge” financing
- REO, rehab or fixed and flip loans

The loan can actually be used for other applications besides real estate. Since the lien is independent of the subject property, the use of funds is totally up to the borrower as long as the terms for borrowing are honored.

WHAT ARE THE BENEFITS FOR ...?

Loan Originators and Realtors – You might have a client who does not qualify for a traditional mortgage. If they have securities, (even foreign securities), that might be the answer for a larger down payment, the payoff of liens to improve their credit scores or extra funds to buy the upgraded home features the mortgage won't cover.

For Borrowers – Use of funds for just about anything you need, [with the exception of purchasing additional

marginable securities], you can pay down debt, purchase a home, pay tuition, all at lower than market rates. It's an additional option you have to maintain your securities portfolio without selling your shares and creating liquidity.

For Real Estate investors – It's a method of attaining funds quickly for rehabbing properties or purchasing other prospects before your current project is completed - and certainly less expensive than using private money loans.

So, for a quick way to get financed, consider your portfolio of securities as an option to traditional financing. And as always, you're wise to provide your own due diligence and consult with your financial advisors and tax consultants regarding this financing concept and how it applies to your specific situation.



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