

## Can your buyers really afford a fixed rate loan?

The calls come in almost daily here in our shop, with the first question at times being, can you offer a fixed rate loan? Our response is always the same, can you afford it? What many clients don't understand, and/or are not explained, is that fixed rates come at a cost. What those actual costs are vary from lender to lender. Today I'll explain many of those costs and what we see happen to innocent buyers much of the time as they are led to believe fixed rates are a benefit.

Most borrowers have typically only financed a house or car and have no specific knowledge of the SBA process and even less of the actual rules surrounding the loan in which they are applying for. Here is where the grey area resides with many optional rules that can protect the assets of a buyer that are never brought to their attention.

Let's first start by explaining the differences between most fixed rate lenders and those writing adjustable rate loans. Typically, if the lender is offering a fixed rate they usually plan to "portfolio" the loan. Meaning: they will keep that loan on their books for the entire term. This typically demands a much higher collateral amount and can add many more internal bank rules to the already cumbersome SBA rules. An example is the personal real estate rule that says if the buyer's personal property has less than 25% equity in it, that it does NOT have to be taken for collateral purposes. That said, it does NOT prevent a lender from placing a lien on a property even if it has no equity whatsoever. You read that correctly—Lenders are always permitted to go above and beyond the SBA rules and add many of their own. One of the largest SBA lenders in the country that offers fixed rate loans and portfolios each one has an internal policy that demands ALL properties owned by a borrower be taken for collateral and liens placed on every one of them, no matter what amount of equity exists. Another actual internal policy of this lender requires all parties injecting any money toward the down payment to personally guaranty the entire loan amount. This again is an example of a fixed rate lender policy that is NOT required by SBA rule. The list goes on and on but the real concern is that borrowers are not aware of these "optional rules" and usually just believe they are actual SBA rules.

Clients typically consider an SBA acquisition loan along the same lines as a mortgage or other debt product used to purchase a larger asset and are under the notion that all SBA lenders are created equal and the only concern should be interest rates. Nothing could be further from the truth and these borrower's typically end up pledging much more collateral than what's required by SBA and may also be exposing their spouse to unneeded loan exposure and guarantees.

The SBA SOP's (Standard Operating Procedures) outline the minimum requirements to secure the SBA's guaranty for a specific loan request. The lender must meet all SOP guidelines and follow all SBA procedures to be able to rely on the SBA's guaranty in the future. They are permitted to go above and beyond the guidelines at any time and many fixed rate lenders do, much of the time.

The three most common areas that we see lenders go above and beyond the requirements are: 1) The actual Loan term. This can be shortened and can be any length term up to the SBA's maximum B) Collateral from a buyer which can be all their owned real estate and cash accounts even though the rule does NOT demand it. and C) Required loan guarantors. A lender can require anyone who they believe to be involved in the operation of the business or just injecting money to be full guarantors on the loan.

The most concerning part of these practices from fixed rate lenders is that most borrowers are unaware that these lender rules could possibly be adjusted, left out of the loan or some other way used to protect a borrower from extra, unneeded risk moving forward.

Case in point as an example. Our recent client owned 8 rental properties and once we determined that only 3 were positioned where we had to place liens, we explained how we could protect his other 5 homes and allow him to use those as collateral to purchase additional rental properties in the future. He was explained by a fixed rate lender that they would be presenting the same scenario with only the 3 properties taken but just days before the closing he was then explained that they needed to take more than just the 3 homes and possibly up to all 8. Being over 6 weeks into the transaction there was no time to begin the process over and he was forced then to pledge more than what was originally discussed. Unfortunately, this scenario happens much more than you might expect, and we witness it all over the country. We do not allow anything like that at our firm as our relationship with our lenders is much too valuable to risk by using such practices.

When comparing fixed rate and variable rate loans as long as the borrower understands the differences and weighs the risk and concerns, we do support the fixed rate option and actually recommend them for many clients, but the scenario must be in their best interest.

Our company policy, and something we explain to every potential borrower, is that “We will ALWAYS provide the best available financing option for your transaction, whether or not that solution includes us”.

If you’re not directing your potential buyers to a conversation with Diamond Financial, what advice are they getting and from whom? Is that worth a fixed rate and can they truly afford the added rules and possible collateral additions?

At Diamond Financial we consistently secure approvals and close loans every day, that’s all we do. That’s all we’ve ever done, which is why we’re the experts. We only focus on closing broker transactions and ways to assist brokers in being more successful.

One team, one focus, everyday!

Steve Mariani

Owner