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Do’s and Don’ts in Commercial Real Estate Loan Underwriting

1. KYC is not just Know Your Customer, but **Know Your Collateral**.

2. While a commercial loan, a **commercial real estate loan is not the same as a C&I loan**. Underwriting and diligence are different.

3. **Do not rely on the appraiser** to carry out your property due diligence.

4. Understand the **difference between due diligence and underwriting** as it relates to each loan request. Not all properties and borrowers fit into the same box.

5. Do not underwrite a property and its rent roll in a Word document. **Use Excel**.

6. **Read the leases.** If you do not understand the terms, **have leases abstracted**. Leases should be abstracted for loan underwriting purposes. Recommend a professional due-diligence lease abstractor over an attorney to complete this work. They know exactly what to look for and are less expensive.

7. **Do not underwrite a property using tax returns.** Tax returns are not timely and critical detail necessary in understanding cash flow is lost. Request a trailing 12-month profit-and-loss statement T-12 on the property and not the borrower. There is a difference. Most borrowers can produce this as more and more investors track income and expenses in Quickbooks.

8. **Do not underwrite a property based on a broker package**. Sizing a loan is fine, but not underwriting, or as source documents for an appraisal. The broker does not guaranty the loan (or carve-outs) and you want to ensure the borrower is capable of generating (or requesting through its third-party manager) basic and essential financial reports for his-or-her own property
9. Real estate does not mark to market as an operating business and **can have sudden spikes in cash flow due to lease rollover**, not only due to a loss of income, but the capital costs of leasing

commissions and tenant improvements to re-lease the space. **Make sure your borrower has the working capital to fund these costs**, and make sure normalized tenant improvements and leasing commissions are included in your cash flow underwriting.

10. When underwriting the borrower using tax returns, make sure you understand the assets that are being reported on at the time of filing. **Those assets may no longer be owned.**

About Gina Marotta

Ms. Marotta is a subject matter expert in mortgage finance, property ownership, and due diligence involving performing and non-performing commercial real estate loans and properties. In addition to structured finance transactions, she works with credit unions on the underwriting analysis of new loan participations and the completion of annual loan reviews, global cash flow analysis, and credit risk rating of commercial real estate loans.

Since 1995, she has held a variety of roles in pooled mortgage transactions that include the re-underwriting of some $70 billion in legacy CMBS loans under the US Treasury's PPIP program; managing the securitization process of commercial real estate loans; and loan re-underwriting and due diligence on behalf of high-yield investors purchasing commercial real estate loans and assets. Between 2009 and 2012, Ms. Marotta worked with a major private equity firm in building a distressed debt platform to invest in small balance mortgage loans of failed community banks throughout the US.

Ms. Marotta has held various senior consultant roles in Latin America since 2004 that include: social interest housing securitization transactions, enterprise risk assessments of social interest housing mortgage companies, distressed small-balance mortgage loans, and operational assessments of regional mortgage and consumer finance companies.

In addition to her corporate and consultancy career in real estate investment transactions, she has been an investor in various commercial and multifamily properties in California and Michigan.

Ms. Marotta began her career in 1987 working in the urban mixed-use development group of the Santa Fe and South Pacific Railroad (Santa Fe Pacific Realty). She holds an MBA from the University of San Diego and an MA in international human rights from Columbia University. She is the founder of the non-profit Human Strategies for Human Rights, which she ran from 2001 through 2004, focusing on NGO capacity building, and held consultancy positions at the United Nations in 2000 and 2001. She maintains consultancy offices in Los Angeles and Detroit.

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