# Use Your Leverage . . . Wisely!

By Patrick Niland

## Six Steps to Stay on Track!

Many of the world's great fortunes have been made in real estate. Several resulted from owning property in the path of growth (location, location, location!). Some were created by anticipating the needs of various demographic groups. And others came from finding new uses for abandoned or under-utilized property. However, virtually all of them depended on one key element for success: leverage.

Webster's dictionary defines leverage as the advantage (increased returns) gained through the use of supplemental capital (borrowed funds). While leverage increases the likelihood of financial success in real estate, it far from guarantees it. In order for leverage to deliver its intended benefits, it must be used in the correct amount, structured in the proper form, and priced at an economic level. Though this may seem obvious to many, examples abound of borrowers who overlooked one or more of these critical components.

For example, just because interest rates are near historic lows, doesn't necessarily mean that every property owner should rush out to refinance their existing debt. First, refinancing is a complex and expensive process--regardless of rates. Second, the financial markets, which now are global and increasingly volatile, offer a dizzying array of loan options. Third, the loan products themselves have grown more complex, which increases the risk of making a bad choice.

However, if you must refinance…either because your existing debt is coming due, because your existing interest rate is much higher than current rates, or because you need additional funds for capital improvements or property repositioning…follow these steps to keep your refinancing on track.

**Step One: Organize Your Facts**

Know everything about your property's physical condition before making that first phone call to a mortgage broker or loan officer. Being able to present your property's profile in complete detail is vital to establishing a positive first impression...and to achieving quick results. I recommend a fact sheet showing your property's address, block and lot number, lot dimensions, number of units and/or square feet, number of floors and elevators, type of heating system and fuel, number of parking spaces, and any other important physical information. Next, prepare a rent roll of all tenant spaces, including tenant names, unit or square feet occupied, move-in date, lease term, rent, escalations, percentage rents, expense pass-throughs, renewal options, and any other relevant information. Lastly, assemble copies of all leases, renewals, and service contracts, plus information about the property's current mortgage, three years of operating statements, and any other important documents. Organize all of this information in a binder or file, so you can access it easily when needed.

**Step Two:  Plan Your Future**

Before contacting any mortgage broker or lender, meet with all of your professional advisors (managing agent, attorney, accountant, and engineer) to prepare a comprehensive plan of your property's current and future (at least five years out) financial needs.  Don't forget to add a contingency for unexpected repairs--at least an extra 10 percent of the loan amount for a short-term loan (5 to 7 years) and 15 percent to 20 percent additional for a long-term loan (10 years or longer).

**Step Three:  Do Your Homework**

Mortgage brokers and loan officers respect borrowers who can describe their property, know their needs, and understand the financial market.  To learn the market, read business publications like *The Wall Street Journal*, *Barron's*, *Fortune*, *Forbes*, and *Business Week*; and newspapers like *The New York Times* and *USA Today*.  Talk to other property owners who have refinanced recently to learn what problems they encountered.  Armed with all of this information, you then should reflect on your property’s specific situation and decide what type of loan, amount, and term would be most beneficial.

**Step Four:  Dial for Dollars**

Fully informed, organized, and prepared, you are ready to contact the financial community.  This also is the time to decide whether to employ the professional services of a mortgage broker or to attempt the refinancing yourself.

To select a broker, get recommendations from your professional advisors, interview two or three brokers, and check their references.  *Never* hire more than one broker. The best deal comes from competition among *lenders*, not brokers. One good broker is all you need.

**Step Five:  Be Nice, Be Honest**

It may sound simple but treating mortgage brokers and loan officers with respect and courtesy will yield dramatically better results than unrealistic demands and frequent confrontations.  Always be up-front and honest about any problems that your property might have, as well as any planned solutions.  All lenders appreciate full disclosure; they hate surprises.

**Step Six:  Stay Focused**

Make it easy for your mortgage broker or loan officer to keep working on your loan application straight through to closing.  Respond quickly to their requests.  Monitor your application’s progress through the approval process.  Keep all of your professional advisors involved, especially your attorney.  Getting a jump on the legal work will minimize the risk of last-minute glitches. Remember that financial markets move daily, sometimes by significant amounts. So, any unnecessary delays could be very costly.

Refinancing a mortgage is one of the most important tasks that you can undertake. It will affect not only your monthly cash flow, but also the market value of your property. Even though the refinancing process can be expensive and time consuming, it is worth every dollar and every minute to plan ahead. With the assistance of a good mortgage broker or loan officer, and careful attention to these six steps, you can complete a successful refinancing in less than 90 days.