SEATTLE FUNDING GROUP LTD

THE SOURCE

EXPRESS EDITION

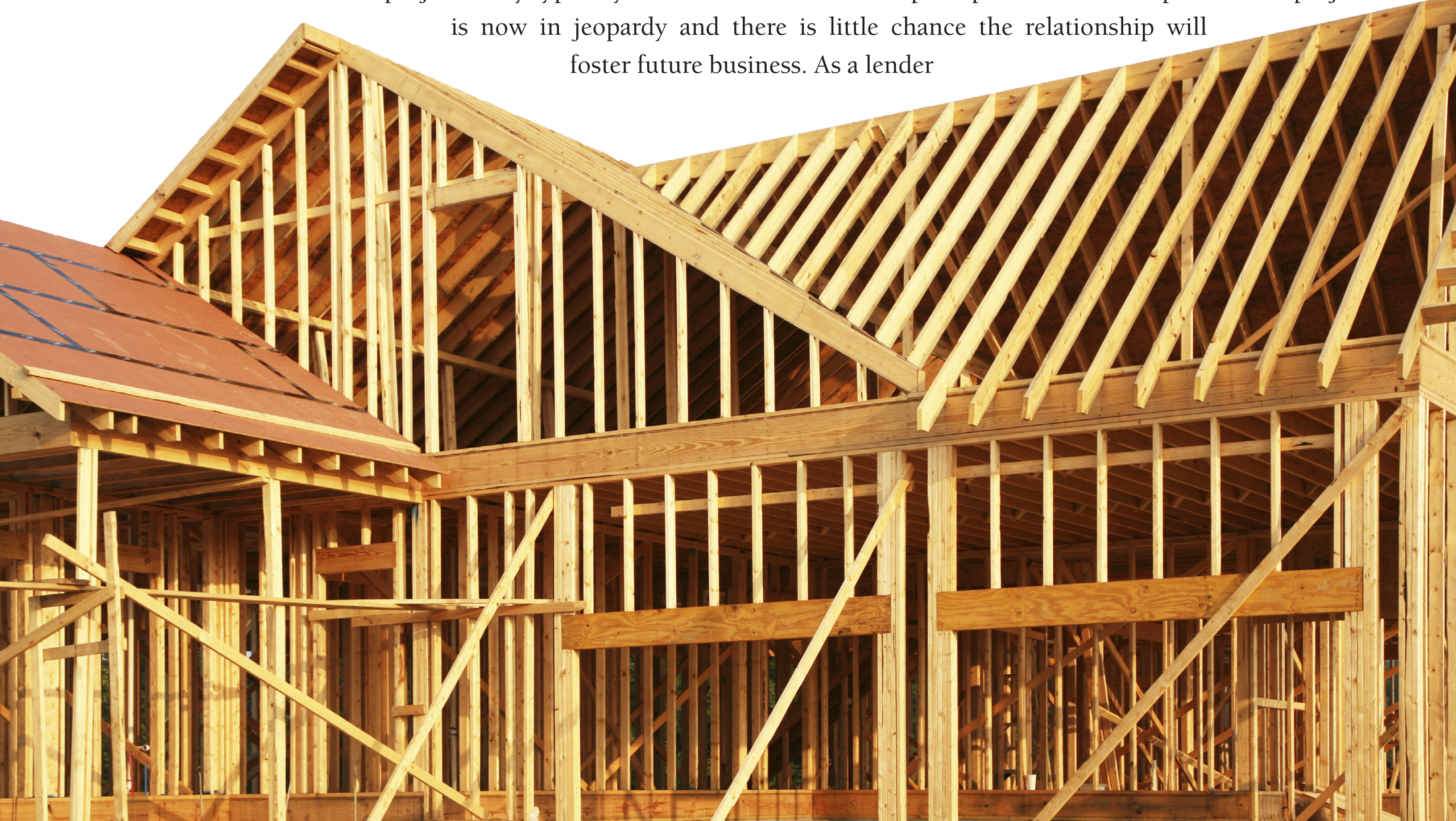
Simple Truths in Underwriting:

Make sure the borrower profits

By John Odegard, CEO, Seattle Funding Group

"Wait a minute.... How is this builder going to make any money?"

I'll never forget the simple "ah ha" I had many years ago after our team was wrestling with a lending decision on a construction loan that in many ways seemed somewhat routine. It was the early 90's and after a long value debate our newest underwriter (who's still with us today) asked the most rudimentary yet unexpectedly perplexing question. "I don't see how the builder is going to make any money. It looks like we will be protected, but he won't. Why is Mr. X even taking on this project?" The boardroom was silent as we each went back through the numbers, this time with the builder's success in mind. He was going to break even at best. The builder was either in the land too heavy or his construction costs were too high, but either way he was going to be working for free. Even if the lender is well secured, if there is nothing in it for the borrower, everyone loses. Typically, the borrower (builder) wakes up to this reality towards the end of the framing stage, and is no longer an asset to the project. They typically become unmotivated and perhaps even bitter or spiteful. The project is now in jeopardy and there is little chance the relationship will foster future business. As a lender



you now have to concern yourself with the likeliness of shoddy workmanship, flippant decisions with respect to materials, code violations and even theft. Prior to making a construction loan decision, one must be sure the success of the lender is economically aligned with the borrower. The borrower should only lose due to poor execution on their part or a crashing economy…not because the elements of success were missing from the loan design.

Make sure all parties win, especially the borrower.

The lesson described above may seem obvious, but it is easy for brokers and lenders to see a potential deal only from their own perspective and miss key components to a successful transaction. Wedging a loan into a deal is not the way to build future business. Making sure all parties win, especially the borrower, is. As great business philosopher Stephen Covey exposes in his best selling book *Seven Habits of Highly Successful People*, "Seek first to understand, then be understood."

The next time you are screening a construction loan or fix and flip for viability, begin with the end in mind. Is there at least a potential 15-20% profit in the structure for the borrower when its all said and done (assuming the borrower completes the project on time and in budget)? If not, wrestle with that reality first, before creatively structuring a loan that meets an intended loan to value ratio. Because the reality is, if the borrower doesn't win, no one in the deal wins. SFG

$1,915,000
Demo and New Construction
Manhattan Beach, CA

Another terrific example of the time value of money. Healthy markets require profit minded builders to seize the day. Timing is a huge part of the process. Having a product ready to sell when the market is ready to buy is paramount. Seattle Funding Group's quick construction funding program positioned this builder to profit handsomely from the buyer frenzy of west Los Angeles' real estate market. As of this printing the property was under contract after being on the market for two weeks at a substantial profit for the borrower.

Favorite Quotes

"Economics does not necessarily have to be a zero-sum game; it can be a win-win proposition for everyone involved."
– Ron Kind

"If you can't measure it, you can't manage it."
– George Odiorne

"Synergy is better than my way or your way. It's our way."
– Stephen Covey

"The ability to create wealth is a gift. Improper management of the gift is ingratitude."
– Blaine Harris

"When prosperity comes, do not use all of it."
– Confucius