SFG SEATTLE FUNDING GROUP LTD

THE SOURCE

BUSINESS EDITION

The Truth about Hard Money Lending: "The Borrower Matters"

By John Odegard, CEO, Seattle Funding Group

In the late 80's I started in the hard money lending business with a hand full of private investors and strong beliefs that the borrower doesn't matter, as long as the equity is sufficient to protect capital. I was wrong. What I knew for certain, just wasn't so. I was like the 20 year old college student who passionately believes Bernie Sanders should be president, lacking experience and largely ignorant to the ridiculousness and pitfalls of his "something for nothing" policies. It's what I call "passionate ignorance." We have all had it at one point in our lives, if not a few times. But if one isn't careful, passionate ignorance can keep one from the truth, and as we all know, "the truth will set us free."

After many years and thousands of deals, I learned my philosophy was a half-truth. Collateral matters immensely, but the borrower drives the taxi and the lender is in the back seat, with a glass partition between them. A lot of damage can be done before the lender can get their hands on the wheel and steer to safety. Here are a few examples of what a borrower can do to make life difficult and your expected return unlikely.

- Let critical land entitlements expire (i.e. four lots back to one) just to spite the lender.
- Trash the property. Yes, looser borrowers actually do this.
- File multiple bankruptcies, during a declining market, preventing lender from taking swift action to solve the problem.
- Lease the property to lousy tenants that indirectly devalue the property.

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- Contaminate the property with hazardous waste, leaving the cost and time of clean up to the lender.
- Plead for government assistance claiming predatory lending.
- Have their business partner, or friend, claim they worked on the property and were never paid by your borrower. They then file a large mechanics lien, which in many states are ahead of the lender. Even if your title policy has endorsements for this, the lender first has to litigate and show a loss. This can take years.
- Tie the lender up in court with bogus counter claims. This can be costly and time consuming.
- Ask way more than the property is worth and let the property get shop worn, damaging its marketability.
- Threaten many of the above claims in order to greenmail the lender into heavy concessions.

Although we are one of the very few lenders in the nation that came through the Great Recession positively, we learned a lot. At Seattle Funding Group we have evolved over the years to become a company where "good borrowers go when the need money in a hurry." We charge considerably less than we did years ago, we attract better properties and deal structures. Our loans perform better, require less worry and our income stream is much more predictable. At the time of this writing our non-performing asset percentage is less than 2%, with well over 100 loans in our portfolio. In the past, it would typically run at 10-15% (keep in mind, non-performing does not mean loss of capital, it just means the borrower has stopped paying).

In addition to a healthier portfolio, our borrowers are loyal as well. They appreciate the service and come back, often several times a year. In the 90's we'd have repeat borrowers about 10% of the time. Today it's about 60% of the time. Designing a product that attracts a higher caliber of borrower produces a win/win for everyone

SUCCESS STORIES

San Diego, CA
Loan Amount: $1,625,000

Seattle Funding Group provided bridge acquisition financing on this well-located, commercial property very near the ballpark in downtown San Diego. Presently vacant, the sponsor acquired the property for purposes of developing and operating a restaurant and night club in the heart of the thriving East Village area. Surrounded by mid and high-rise residential, one block from Petco Park and across the street from a large public parking structure, the site was ideally suited for the buyer's intended use. Already operating multiple food & beverage establishments, steak and coffee houses throughout San Diego County, this experienced real estate developer, owner and operator is a 14 time repeat client with SFG. They know SFG is the one to call or text when deal certainty and responsiveness are required.

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involved. And in the long run, produces a higher consistent return due to a more predictable income stream with less management headaches. We charge much less on each deal, but in the long run we gain so much more.

Over the last decade, Seattle Funding Group has evolved to become an alternative lender for the high caliber entrepreneurial borrower. And we will never look back. Working with brokers who serve this growing market segment has been the best growth decision we have ever made, both from business profit and business enjoyment.

Let's work together to provide credible entrepreneurs deal certainty with attractive pricing so that everyone comes out ahead. Your borrowers will be pleased, profit and likely come back to you on the next deal. It is for this reason we struggle to call our product and service "hard money." We much prefer the term "private money" which better reflects our attractive pricing and win/win approach.

Let's make 2016 your best year ever. See you in escrow. SFG

Queen Anne Hill (Seattle), WA
Loan Amount: $3,000,000

23 unit apartment building located in Seattle's Queen Anne neighborhood. The South Slope of Queen Anne Hill is arguably the best location in the city offering views of downtown Seattle and the iconic Space Needle. This investor wanted a quick refinance with some cash-out to finish a high end rehab project he started over in Magnolia. Many SFG borrowers have locked onto the practicality of making money with our money... a simple and effective concept, but often overlooked. The key element that sealed the deal was speed of delivery and having no prepayment penalty.

Alki (Seattle), WA
Loan Amount: $1,985,000

A speedy and certain bridge loan was needed to finance the advantageous acquisition of this 7 unit apartment building in the West Seattle neighborhood of Alki. Each of the 3 story townhome style units has a city view of Seattle skyline and Elliot Bay facing east from this highly desirable neighborhood. Seattle Funding Group was the natural lender of choice as the newly built asset was being purchased vacant, without any rental history, from

the construction lender. Additionally, since it is the sponsor's plan is to sell the units individually, they needed a speedy lender who could also offer deed releases so they could sell the units individually, and of course...no prepayment penalty. SFG delivered on all accounts and our borrowers, and their investors, are prepped for a substantial profit.

Strategies for Overcoming Price Objections

Stay Focused on Value

> **“If I needed $2 million by next Friday to close on a $3 million office building, what rate could you get for me?”**

How do you answer that question?
Or do you even answer it?

I respectfully propose you answer it with a question. Something like “Interesting. Why so fast?” Posing a question to the potential borrower does two things. It educates you to their motives and intent so that you can better serve them. And two, by explaining his/her objective, they are inculcating to themselves the value of achieving such a quick close. You might even dig a little deeper by asking clarifying questions like, “What would such a fast closing do for you?” Likely, the value of your service is in his/her answer. What if the answer is, “It would make me a ton of money by allowing me to get this unique property before someone else does.” Okay, now you have something to run with. The value is in the certainty of a quick close and less so in the rate. While it’s true that no one wants to overpay, a slight rate premium for a quick and certain close has real value, and you need to expose it.

Here is the other option you have when asked such a question. Just answer it. “About X%.” Your answer will likely not be as accurate as it would if you asked some clarifying questions. And after you quickly answer without clarifying questions, you have nothing. No better information, understanding or angles on how you might help. So know the deal better before you answer.

THREE QUICK STRATEGIES FOR OVERCOMING THE PRICE OBJECTION:

STRATEGY 1

Ask questions and clarifying questions to smoke out the real motive and advantage of a quick close.

STRATEGY 2

Add up the price differential to bank financing and hypothetically tack it onto the price of the property. The extra cost often seems small in comparison. This illustration helps them understand and rationalize the value of speed and certainty delivered by private money.

STRATEGY 3

Deduct the premium costs from the expected profit. Does the deal still work? Usually, yes. Instead of a $500,000 profit they may make only $420,000. Not much of a sacrifice for deal certainty. Without your two-week close, they may miss the deal all together.

There are plenty of ways to position your private money so that its value stacks up higher than the price. To do this effectively, you must ask enough questions to understand the deal and its value points. Once you have an understanding of the key deal elements, you can best prescribe an exacting loan structure that will add considerably more value than the cost of funds.

Happy dealmaking! SFG