

How to Write a Commercial Loan Executive Summary

When I am reviewing a loan file one of the first things I look at and look for is the executive summary or loan summary. A well written executive summary shows the quality of the borrower and the value of the project. The goal of well written loan summary is to give the underwriter enough information to understand the commercial loan and to determine if the loan will fit within the lender's lending guidelines.

Below are items that should be included in a well written and complete executive summary.

Salient Facts

Lenders want to know the details of the commercial real estate loan. Property location, property type, number of units, lot size, and the square footage are all important in the underwriting process.

Also include the loan amount and property value. I am always amazed when a loan summary is missing the loan amount or the property value. If the property is being acquired, include the purchase price.

You might also include useful ratios such as loan-to-value (LTV), loan-to-cost (LTC), and the debt service coverage ratio (DSCR). Rounding these ratios to the nearest 5 or 10 integer can appear deceiving. I personally prefer that these ratios be expressed to two decimal places.

Project History

Include a project history for commercial property that is currently owned by the borrower. This should include the date of acquisition, acquisition costs, and any improvements or monies spent on the project.

Exit Strategy

Lenders are looking to see what the borrower's strategy is to repay our loan at the end of the loan's term. The exit strategy may be less important to permanent lenders than it is to short-term sources of capital.

Sponsor Summary

The sponsor or borrower summary should give relevant facts about the sponsor, but should not be their life story. A more detailed description of the borrower or borrowing entity can be included in a borrower's resume.

A good summary might look like this:

Fictitious Development Company was started in 1989. Since its inception it has developed 32 properties with over 1,000,000 square feet of retail space. With combined sales of \$120 million. Or: Fictitious Properties Group began acquiring multifamily properties in 1993. Fictitious currently owns in excess of 4,000 units in 7 states with rental revenue in excess of \$3,000,000.

Sources & Uses

This section details the utilization of the loan proceeds as well as the source of any other funds needed for the project. A table or spreadsheet format is most helpful and looks cleaner. If you are seeking a construction loan, this section is vital for the underwriting process. Cost information should only be a summary. The detailed costs should be included with the rest of the packet.

Property Financials

Relevant information regarding the current or projected rental income of a building should be included. The value of income property is determined by dividing the property's net operating income by a capitalization rate suitable for the market location. Gross Income, total expenses, and vacancy are needed to determine net operating income.

Conclusion

Keep an executive summary short, no more than two pages. Include enough detail for the underwriter to understand the deal and to determine if it will fit in the lender's parameters. Never mislead or lie on an executive summary. A well written commercial loan summary is often a reflection of the professionalism of the commercial mortgage broker submitting the loan.