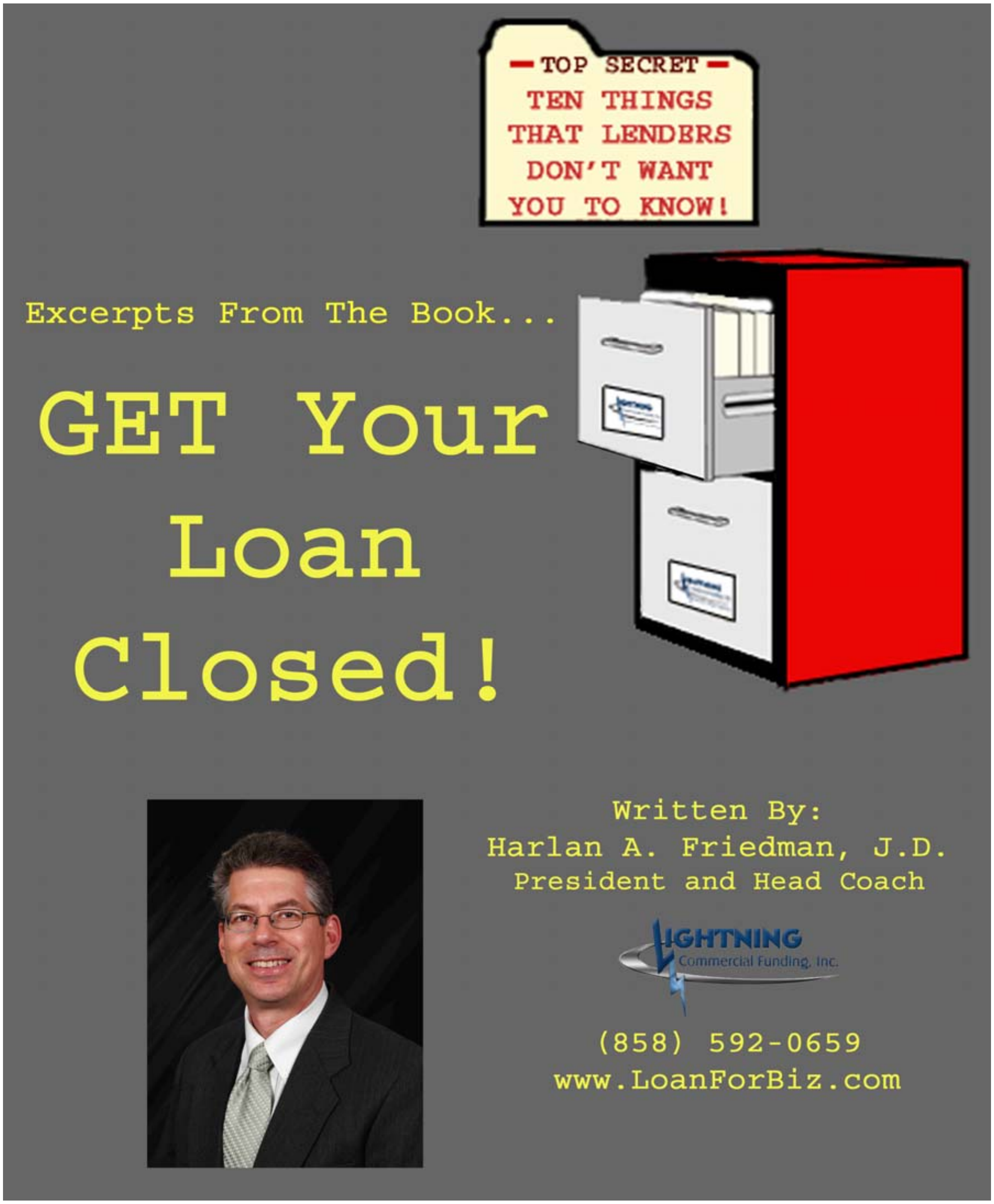

Learn How to Calculate True Down Payments for Loan Approval, While Understanding What Loan to Value Really Means

The words “Down Payment” conjure up a lot of images, as well as lots of misconceptions.

100% financing – no down payment, pay latter terms, etc, sounds like an infomercial for a furniture salesroom.

Bank loans to real borrowers could not be anything further from what those infomercial advertisements would have you believe.

First of all let me state categorically there is no 100% financing for any bank loan in the market place. Even the lenders that profess that they have 100% financing do not. As a borrower you will have to put down money to buy a property whether it’s a business or a piece of commercial real estate.

“I have to have a down payment but how much?”

Well that is a very interesting question and one that cannot be answered specifically but rather generally. Each lender will have their requirement for a down payment. For example an SBA lender, using the SBA504 Program, will only require 10%, while a commercial investment piece of property depending on the CAP Rate may require at least 35%, or anywhere between the two. Land financing if you can locate a straight land lender will usually require 50% down.

Let’s look at the above example of 50% down; we will use 50% for ease of mathematical formula. Assume a property is selling for $300,000.00, no interest carry, no points, fees etc. The loan is for 50% of 300,000 or $150,000, as the borrower brings to the table $150,000 or 50% Down.

But the above scenario is not realistic. What lender is going to do a loan with no points no fees etc? Also if development is involved there will be interest carry for the loan, so the project cost is no longer $300,000.00 but maybe $350,000.00 so a 50% Down would now be half of $350,000.00, not $300,000.00. Some lenders may split the difference by not charging the points directly and putting them in the loan, while in the loan they may not be subject to 50% for the down payment.

Read *GET Your Loan Closed!* to find those important questions to ask your lender, and to view actual loan sizing models.

Loan to value is the amount of money of your down payment as compared to the loan amount borrowed. Notice it is not compared to the purchase price but as compared to the loan amount. For example 25,000 down against a $100,000 loan will yield a 75% Loan To value.

The only thing you should be aware of is that a lender who states they will loan at 75% loan to value, may not actually lend at 75% because if the property does not cash flow at the appropriate debt service ratio, the lender will not lend the value they stated but will reduce their loan to value to meet cash flow requirements. So in essence you have to look at all the factors of the loan, cash flow as well as debt service to determine what the actual loan to value will be that the lender is comfortable with. For a complete example of how this works please refer to our book *GET Your Loan Closed!* Form the clients perspective this is probably the most misunderstood area of commercial financing.

It is vital to understand how all these factors interrelate and that they cannot be taken individually but must rather be looked at collectively.

Next week we wrap up the FREE White reports with Putting it all Together in the Loan Package. Make sure you order the Book *GET Your Loan Closed!* to get in depth knowledge of all ten of these reports at only $47.00 for the hard cover or $37.00 for the pdf version you are getting a full $50.00 off of the retail price. Order Now! *GET Your Loan Closed!*