



Due diligence tech helps private lenders offer new debt to distressed borrowers - by Anthony Romano

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Private lenders are finding plenty of opportunities to make loans to commercial property owners in 2021. In exchange for new debt to replace struggling owners' existing mortgages, these lenders typically command double-digit returns to compensate for their elevated risk.

But in a year when lockdowns and underperforming tenants are driving distress among commercial landlords, lenders face their own challenges to close financing amid travel restrictions, business closures, and other pandemic-related conditions that can prevent site visits and delay the traditional steps leading up to closed transactions.

That is a problem because timely loan processing is often critical to helping borrowers depend on lender forbearance on their current debts to retain ownership of their commercial properties. The Congressional relief measure that has allowed lenders to put off accounting for potential losses from these distressed borrowers will expire at the end of this year. At that point, landlords unable to make good on their commercial mortgages will face increasing pressure to sell at distressed pricing or even lose their properties to lenders through foreclosure.

The challenge for private credit lenders is to maximize efficiency in how they screen loan applicants, quickly evaluating properties for environmental conditions and other risks through proper due diligence that lets them focus on the most promising opportunities. In the process, organizations must minimize the in-person research, reliance on multiple third-party service providers, and site visits traditionally associated with real estate property evaluations and loan preparation.

A growing number of private lenders and investors solve these challenges by developing or adopting front-end tools that expedite the due diligence process. Technology on the market today enables users to generate general environmental reports in seconds that would once require days or weeks to obtain from a third-party provider. Platforms may incorporate professional services along with software, giving clients access to commercial real estate appraisals, property condition assessments, broker opinions, flood-threat assessments, and property valuation services.

With a streamlined system of consistent pre-screening practices, loan officers can quickly triage commercial loan applications and identify the properties that require a more in-depth environmental assessment. In cases where risk is minimal, the report generated in the initial triage may be all the

environmental due diligence necessary for financing to proceed for that property.

Technology Platforms Cover the Bases

Technology platforms give organizations a competitive edge by centralizing resources for maximum efficiency. In lending due diligence, that means a platform should provide loan officers a single, go-to resource for the full range of their commercial real estate needs, from desktop reports to field inspection services. This minimizes the time required to initiate and complete each task in evaluating a property and ensures that each step is carried out correctly, eliminating guesswork.

Whether developing a due diligence system in-house or shopping for a solution, a lender should keep in mind the goal of providing its team with a one-stop-shop experience. Ideally, a platform should generate or provide rapid access to environmental pre-screenings and interpretation of results. Lenders should use the same system to order professional services and data, such as broker price opinions, commercial appraisals, and flood certifications.

Platforms that offer access to a national network of industry professionals have helped many organizations complete financings and other real estate transactions despite travel restrictions during the pandemic. Loan officers can go through the platform to commission an environmental assessment, property condition assessment, or valuation anywhere in the country without research area service providers, seeking references, or negotiating rates. Because service providers in the network are already screened and trained to use the same platform, their reports adhere to the system's technology and standards for efficiency and transparency.

Private lenders must do their homework before selecting a due diligence platform. With a comprehensive package of the most-needed solutions, some of which are delivered in a matter of seconds, lenders can position themselves to gain critical insight as they shorten transaction and decision-making timelines, saving tens of thousands of dollars each year.

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