

LOAN PROPOSALS

The processing of a commercial mortgage loan application involves a significant amount of paperwork. Often the amount of paperwork involved exceeds that of a residential mortgage loan by several folds. Therefore neither the lender nor the broker wants to waste a lot of time processing a deal that is not going to close.

It is therefore customary in commercial mortgage lending for the borrower or mortgage broker to initially submit to the lender a mini-package in hopes that the lender will issue a loan proposal. A qualified mortgage loan broker who does this on a regular basis will give the borrower the best chance of obtaining the most attractive loan proposal available.

A loan proposal is not a commitment. A loan proposal is merely an expression of interest by a lender in making the loan and an estimation of the eventual terms. Final loan approval will be subject to many factors, including a satisfactory appraisal, approval of the borrowers' financial statement and credit report, and a more detailed analysis of the property's cash flow. Therefore a loan proposal is legally worthless.

In practice, however, a loan proposal is very encouraging. Once a loan proposal has been issued by a lender and accepted by the borrower, there is an excellent chance your deal is going to close on terms very close to those agreed upon.

Sometimes loan proposals are in writing; slightly more often they are verbal. If issued in writing, they are often called "good faith letters."

It is common for banks, conduits, life insurance companies and credit companies to ask the borrower to post a non-refundable good faith deposit as evidence of his interest in the loan.

Unless the lender is a household name, however, the broker should investigate the lender thoroughly before tendering the borrower's deposit. Good faith deposit scams are rampant in the industry. As a result, it is illegal for a mortgage broker in California to collect a good faith deposit.