

## **Commercial Lending provides a more holistic business model**

Commercial Lending, has been available to the broker market for many years, but has been perceived as being too complex for the general residential mortgage broker to become involved. This type of lending includes equipment finance, motor vehicles and small, medium and large business loans, along with Commercial and Property Development loans. Choices can be made by each individual writer as to the level at which they wish to become involved. Undertaking smaller deals and progressing through the levels is a great way to start the journey.

Whilst business and commercial lending levels are growing at their fastest rate in 15 years we are seeing a decline in mortgage lending in most states with WA and NT excepted. There still appears to be a strong reluctance by existing residential writers to accept the portfolio of commercial lending. When discussing these issues with many existing Finance Brokers across the nation some common threads are appearing as follows;

- Finance Brokers are under the impression that they cannot submit deals unless they have 2 years commercial business writing experience. In response to this concern there are many new non Bank lenders that will gladly accept the deals as long as they are submitted in the required format. However the writer must demonstrate a clear understanding of the issues involved in the application. It is worth noting that while some of the major lenders adopt the same philosophy, as mentioned above, they may invoke a trial period to ensure the writer clearly understands the commercial lending process. Finance Brokers must not lose sight of the fact that all lenders of whatever ilk, will gladly assist in application presentation because they want new business.
- Do lenders pay upfront and trail commissions? Lenders pay upfront commissions but not all pay a trail commission. It is dependant on the type of loan. A separate fee may be charged to the client provided however it falls within the fee guidelines as set out in the Scale of Fees that operates in your state.
- Are low documentation loans restricted to mortgage finance? No There are low document commercial loan, chattel mortgage and leasing finance providers These deals can be very competitively priced to suit the needs of the borrower

- How will I know which is the best loan for the clients? This is really the same process you use today with your residential lending. Your research should determine a suggestion to the client that highlights the benefits and shortcomings of a particular product and or interest rate preference. Does a client need a variable rate loan, fixed rate, interest only, in advance or arrears, business overdraft or business line of credit? The fee and loan structures will vary from client to client. However you will be well versed with these variances as the funders/lenders train you in all aspects of the products during their accreditation process.  
The products are basically the same, they just have different names.

As you can see from the above there are a lot of suppliers of funds that will certainly accept applications from properly trained commercial writers, who do not have the required 2 years lending experience. It really depends on the writer's individual experience and the ability to submit the deal subject to the lender's requirements. A writer, therefore, is not placed into the 2 year rule category as a matter of course. There is no difference to what you are required to do now when submitting a deal and the basics also apply when writing commercial loans. Lenders' greatest fears are that many writers will submit incomplete deals that will slow the approval process and inhibit their valuable resources.

Becoming a commercial writer also raises your profile with your own clients and the professional market as you will need to be consulting with their accountants and financial advisers. Finance Brokers are constantly looking for ways to grow their client base and at the same time form alliances with other professionals in their areas of influence. By you undertaking the Commercial lending course that has proven processes in place from the initial interview, to the understanding of financial statements and cash budgets, it allows you the opportunity to lodge a deal confident that you can achieve the required successful outcome.

Commercial lending also provides all brokers with choices;

### **NEGATIVE**

- Refer your clients direct to lenders and potentially lose the control over your clients in the future
- Refer your client to another commercial writer and potentially lose control.

### **POSITIVE**

- By undertaking the commercial lending course, you will
  - (a) lift your profile in your client's eyes
  - (b) gain a stronger referral network from the professionals in your area
  - (c) increase the many cross sale opportunities which in turn increases your income stream  
and
  - (d) above all gain a new level of confidence and job satisfaction.

Remember the commercial lending process is not that difficult if you follow a structured process by gaining accreditation from the lenders through either your Aggregators and or Lenders. Also remember that financing a motor vehicle is no different to financing a 100 tonne dump truck. The basic fundamental principles still apply.

If you decide to combine commercial lending with your existing mortgage broking client base portfolio, which already no doubt has a need for commercial borrowings, it will prove to be a very rewarding experience.

Disclaimer: This article represents only the views of the author and is not to be considered as advice.

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