

Commercial Credit Facilities: The 4 C's

Consider the essential steps to finding the best value for you and your company

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SOME BROKERS MIGHT BE FAMILIAR with the “four C’s” used to judge a diamond: cut, color, clarity and carat weight.

When evaluating credit facilities — or a loan or collection of loans — there also are four essential C’s to consider: commitment, composition, cash management and cost. Here’s a look at each.

1. Commitment

Brokers should start by asking if their financial institution is committed to its business or is funding on a deal-by-deal basis. In the present market, many credit facilities are being trimmed or disappearing altogether.

For example, consider a financial institution that does not understand private lending and has issues with its portfolio. It may view your hard-money portfolio with relatively higher interest rates as having greater risk than what is on its books. Or it might seek a broad array of property types and locations, disregarding that you work within a select niche of property types and geographies. Some finance companies do not understand that most private-mortgage companies protect themselves by only funding loans at lower loan-to-value (LTV) ratios.

A shaky credit structure from a company that is not committed to your operations could prove detrimental to your business, reputation and future viability.

2. Composition

Portfolio composition is another important factor. Do both sides understand expectations for loan terms and property types? Can creditworthiness be traded for LTV? What is the process and timing for placing assets on the

line for funding? In private lending, re-underwriting every loan can hamper the speed that is vital to the deal.

Each financial institution should work with you to develop a broad outline of eligibility criteria for the types of loans it will fund.

These basic guidelines — property type, loan-amount range, geographical areas and LTV range — align with your expertise and help minimize conflicts. But they should not act as hard rules.

3. Cash management

Although cash management often is overlooked, it can add to your operations. Cash management for some institutions simply means their management of your income.

Some financial institutions are more concerned with their interest and fee collection from your portfolio versus the value that your portfolio can achieve.

Basic cash management includes payment collection and application. Important features include the flexibility of funding, managing funding amounts and repayment of the facility.

These aspects of a credit facility will impact you and your operations. Effective cash management allows your operations to benefit from the flexibility, availability and reliability that a true credit facility provides.

4. Cost

Costs are much more than rates and fees. Your funding source’s performance will greatly affect your own performance.

Factor in the opportunity costs or benefits realized from your lender’s ease to fund, flexibility, ability to work with you and willingness to share best practices.

Although interest rates and advance rates impact your return on investment, commitment, composition and cash management impact your company’s performance and drive your bottom line. What value does a committed lender provide you? What risks and costs come if your lender does not define its composition? What costs come from an ineffective cash-management strategy?

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These factors are critical when you evaluate a credit facility. The cheapest price tag is not always on the best buy — and a high price doesn’t always guarantee quality. What makes a difference is dealing with a finance company that shares your commitment, aligns with the composition of your portfolio, provides strong cash-management functions and provides the best cost value. *!!*



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