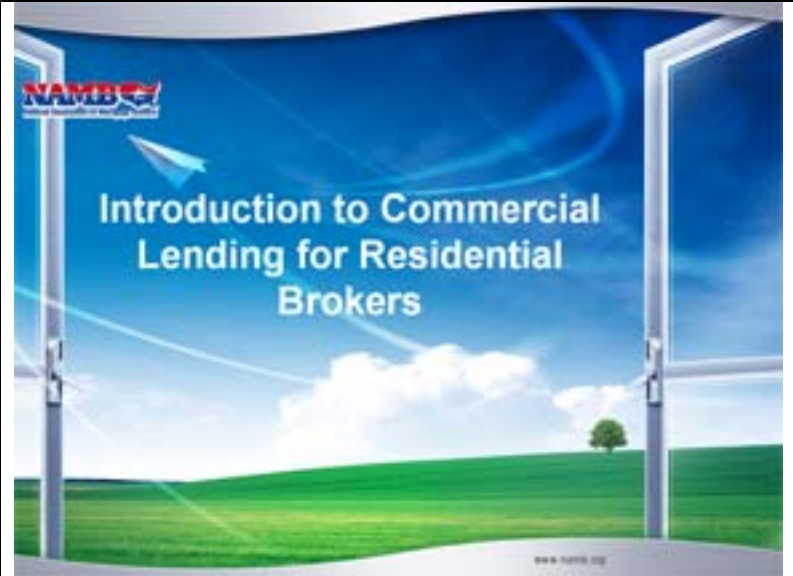


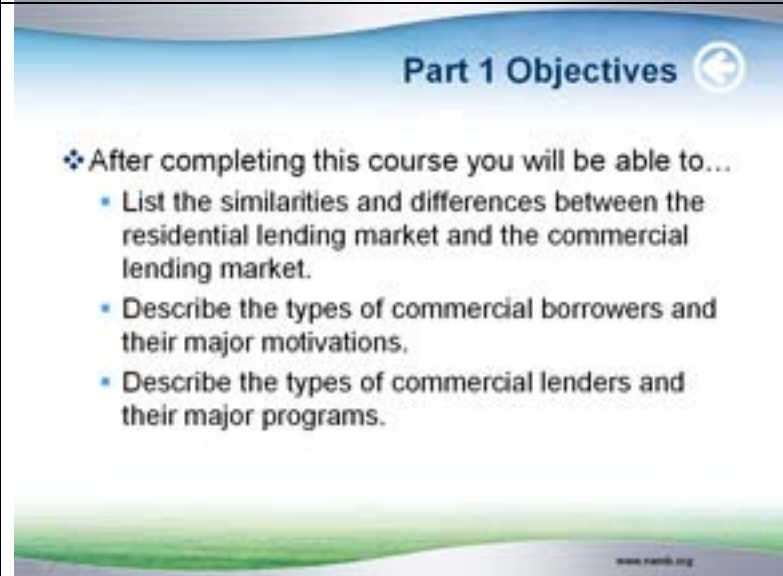




Thumbnail	Say:	Ask:
	<p>Say: On behalf of the National Association of Mortgage Brokers, welcome to Introduction to Commercial Lending for Residential Mortgage brokers. Thank you for taking the time to join us today. This course is designed to provide you with background knowledge in commercial lending, including borrower types, property types and lender types.</p>	<p>Ask: Does anyone have any previous experience in commercial? If yes, what has been your experience? (Optional) What are your expectations of this course? (Use to look for specific topics and overall pre-conceptions about the course.)</p>
	<p>Today we'll look at the commercial market itself and the similarities and differences to the residential market. Then we'll take a closer look at various lending solutions within the market. Finally we'll review an effective approach to selling commercial loans.</p> <p>NOTE: This course does not offer legal counsel or advice in commercial matters. Consult an expert for specific questions and situations.</p>	

 <p>Course Sponsor</p> <p>• This course is sponsored by:</p> <p>SILVER HILL FINANCIAL LLC</p> <p>INTERBAY FUNDING, LLC</p> <p><small>www.namb.org</small></p>	<p>This course was made possible through the efforts and financial contributions of InterBay Funding, LLC. and Silver Hill Financial, LLC.</p> <p>This course contains a variety of examples from commercial lending, all of which are designed to model aspects of the market. However, commercial loans are unique and experience may differ.</p>	
 <p>NAMBOW National Association of Mortgage Brokers</p> <p>Part 1: Introduction to Commercial Lending</p> <p><small>www.namb.org</small></p>	<p>In this section we'll review the agenda and learning objectives for this course. We'll explore commercial by examining the similarities and differences between commercial and residential.</p>	



 <p>Part 1 Agenda</p> <ul style="list-style-type: none"> ❖ Objectives ❖ Materials provided ❖ Introduction to Commercial ❖ The Borrowers ❖ The Lenders ❖ The Properties 	<p>Read the agenda.</p>	<p>Does anyone have any questions about what we're going to cover today? Is there any additional information you were expecting during this course?</p> <p>NOTE: This is a good time to explain that more advanced and specific topics are offered in other NAMB courses.</p>
 <p>Part 1 Objectives</p> <ul style="list-style-type: none"> ❖ After completing this course you will be able to... <ul style="list-style-type: none"> ▪ List the similarities and differences between the residential lending market and the commercial lending market. ▪ Describe the types of commercial borrowers and their major motivations. ▪ Describe the types of commercial lenders and their major programs. 	<p>Read the objectives.</p>	<p>Does anyone have any questions about what we're going to learn today?</p>

<p style="text-align: right;">Materials Provided </p> <ul style="list-style-type: none"> ❖ Presentation Printout ❖ Job Aids <ul style="list-style-type: none"> ▪ Commercial Lending at a Glance ▪ Commercial Lending Math ▪ Lender Questionnaire ▪ Commercial Loan Financial Worksheet ▪ Commercial Underwriting Checklist ❖ Example forms and documents <ul style="list-style-type: none"> ▪ Borrower/broker Agreement for Commercial ▪ Commercial Loan Application <p style="text-align: right;"><small>www.namb.org</small></p>	<p>In addition to a print out of the PowerPoint slides we'll be using today, this course also includes several job aids and example documents. The job aids contain core information organized into a clear and concise format. Job aids are designed for use both in class and in practical settings. The example documents represent key forms used within commercial transactions.</p>	
<p style="text-align: right;">Why Brokers Don't Do Commercial Deals. </p> <ul style="list-style-type: none"> • Too complex • Too time consuming • Spend the time but don't get paid • Don't know the money sources • Don't know needs of commercial clients • Too busy with residential business • Fear <p style="text-align: right;"><small>www.namb.org</small></p>		<p>Why do you think Brokers don't do commercial deals?</p> <p>-Write results on flipchart or whiteboard.</p> <p>After clicking to reveal the list, review any items not suggested by the brokers.</p>

<p style="text-align: center;">Why Do Commercial Loans? ↻</p> <ul style="list-style-type: none"> ❖ Less competition ❖ Less interest rate driven ❖ Fewer regulations ❖ Constant need for financing ❖ Few states require a license* ❖ New revenue stream \$\$\$ <p style="background-color: #0070C0; color: white; padding: 5px; text-align: center; font-size: small;">*Always check the regulations within the States you plan to do business in to determine actual requirements.</p> <p style="text-align: right; font-size: x-small;">www.namb.org</p>		<p>Can anyone think of any reasons why commercial loans represent a good opportunity?</p> <p>-Write results on flipchart or whiteboard, preferably next to the reasons from the previous slide.</p>
<p style="text-align: center;">Why Brokers Don't Do Commercial Deals. ↻</p> <ul style="list-style-type: none"> • Too complex • Too time consuming • Spend the time but don't get paid • Don't know the money sources • Don't know needs of commercial clients • Too busy with residential business • Fear <p style="text-align: right; font-size: x-small;">www.namb.org</p>	<p>Read off each item from the slide. Highlight that partnerships or corporations may require a personal guarantee from one or more of the individuals. Programs range from traditional (full doc) to more non-traditional solutions. Many lenders have a preference or non-preference for certain types of properties, loan amounts and/or borrower credit rating.</p> <p>Introduce the Commercial Lending at a Glance Job Aid.</p>	



<p>Commercial-Residential Similarities</p> <ul style="list-style-type: none"> • Vocabulary <ul style="list-style-type: none"> ▪ Fixed rates, ARM, Balloon, Interest only • Term/Amortization <ul style="list-style-type: none"> ▪ 5,10,15,20,30 years • Options <ul style="list-style-type: none"> ▪ Buy up/down, fixed vs. adjusted • Requirements <ul style="list-style-type: none"> ▪ Loan application, credit history, appraisal, documentation <p style="text-align: right; font-size: small;">www.nambor.org</p>	<p>There are several ways in which commercial loans are similar to residential loans. As you can see by this slide, commercial lending contains many of the same terms and concepts. Commercial loans also tend to have the same requirements for income verification, although commercial requirements are sometimes more extensive, rigorous and ongoing.</p>	<p>Are there any terms or options here that are new or unfamiliar to anyone?</p>
<p>Commercial-Residential Differences</p> <div style="display: flex; justify-content: space-between;"> <div style="width: 60%;"> <ul style="list-style-type: none"> ❖ Residential – <i>rate driven</i> <ul style="list-style-type: none"> ▪ Commoditized ▪ Direct Competition ▪ Borrower's Income ▪ Uniform Appraisal ❖ Commercial – <i>solution driven</i> <ul style="list-style-type: none"> ▪ Specialized ▪ Indirect Competition ▪ Property's Income ▪ Specialized Appraisal </div> <div style="width: 35%;"> <div style="border: 1px solid black; padding: 5px; margin-bottom: 10px;"> <p>Financing Options</p> <ul style="list-style-type: none"> ▪ Mortgage ▪ Other loan ▪ Borrow family/friends </div> <div style="border: 1px solid black; padding: 5px;"> <p>Financing Options</p> <ul style="list-style-type: none"> ▪ Mortgage ▪ Other loan ▪ Borrow family/friends ▪ Direct financing ▪ Lay offs ▪ Raise prices ▪ Cut costs </div> </div> </div> <p style="text-align: right; font-size: small;">www.nambor.org</p>	<p>Although commercial and residential loans are similar, commercial loans also have some clear differences. Residential borrowers generally have fewer options for funding their purchases, debt consolidation or improvements. Commercial borrowers not only have more options but their cost of inaction is much lower. In commercial lending each loan has its own story and the key is to sell a solution to a specific problem, rather than just a financing option.</p>	<p>If I own a home and want to consolidate bills and redo my kitchen, what are some ways I can obtain funds?</p> <p>If I own a pizza shop and want to purchase a new pizza oven and redo my dining room, what are some ways I can obtain funds? (commercial loan, personal loan, SBA, cut costs, increase prices, take on a partner/ investor, do it yourself, DO NOTHING)</p>

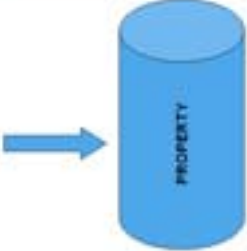

<h3 style="text-align: center;">Why Do <i>Small Commercial</i>? </h3> <ul style="list-style-type: none"> • Less complex transactions • Greater number of small commercial properties • Greater need for financing options • Shorter closing times • Shorter learning curve • Accessible starting point for residential brokers <p style="text-align: right; font-size: small;">www.namb.org</p>	<p>The remainder of this program focuses more on small commercial lending opportunities because this represents the best and most accessible opportunity within commercial lending for residential brokers. The market is larger and more diverse, and has a shorter learning curve for a residential broker.</p>	<p>Before we get started, let's take a moment to consider how much we already may know (whiteboard or flipchart answers):</p> <p>Who do you think are typical borrowers in a commercial transaction?</p> <p>What lenders do you know of who offer commercial loans?</p> <p>What types of properties do you think are involved in commercial transactions?</p>
<h3 style="text-align: center;">Components of a Commercial Loan </h3> <ul style="list-style-type: none"> • Borrowers • Properties • Lenders <div style="text-align: center;"> </div> <p style="font-size: x-small;">"Commercial lending is about putting the right peg in the right hole."</p> <p style="text-align: right; font-size: x-small;">www.namb.org</p>	<p>Every commercial loan has three main components: the borrower, the property and the lender. Think of the borrower and property as a "peg." Think of the lender as a "hole." Pegs have different shapes based on the profile of the borrower and the property. Each lender has certain parameters and preferences within their loan programs. Those make up the shape of the hole. The key to closing commercial loans is to line up the peg with the right hole based on the characteristics of all three components.</p>	



 <p>The Borrowers - Types</p> <ul style="list-style-type: none"> • Examples <ul style="list-style-type: none"> • Small business owners <ul style="list-style-type: none"> • Retail, restaurant, auto body, etc. • Business professionals <ul style="list-style-type: none"> • Doctors, lawyers, consultants • Real estate investors • Real estate investment groups • Characteristics <ul style="list-style-type: none"> • Individuals, corporations, LLC and non-profits • Owners, renters and investors • Varying levels of sophistication • Wide variety of motivations 	<p>Read the slide and provide specific examples for each group (presented in bullet order):</p> <ul style="list-style-type: none"> • Think of your local business park or business neighbors • Small business owners, family businesses • People who already own property may need to pull equity, people currently renting may want to build capital, residential property investors may want to consider office, mixed-use and multi-unit residential units • Borrowers may know a lot or a little about financing and mortgages • Every commercial loan has its own story 	<p>What types of residential borrowers have you dealt with that may be leads for commercial loans? (Self-employed borrowers, investment property borrowers)</p> <p>Can anyone think of any other borrower types?</p> <p>What would motivate each of these borrowers?</p> <p>(If people are initially unresponsive, ask this question with specific borrower, i.e. What motivates a doctor? What motivates an investor?)</p> <p>NOTE: This question lays foundation for the discussion on motives to come in Part 3.</p>
 <p>The Borrowers - Motives</p> <ul style="list-style-type: none"> ❖ Expansion ❖ Repair/renovate ❖ Build equity ❖ Cash flow ❖ Purchase inventory ❖ Expand staff ❖ Pay off a balloon note ❖ Investment ❖ Acquire location ❖ Buy out partner 	<p>Borrowers have different motives based on their situation. Commercial borrowers generally have a greater range of motives than residential borrowers. In addition to the standard purchase and “cash out” motives commercial borrowers have needs related to the upkeep and growth of their business.</p>	<p>Can anyone think of any other borrower motives?</p> <p>Which of these motives do you think are the most pressing?</p> <p>NOTE: This a good place to interject your own commercial lending stories as examples, or invite participants with commercial experience to share their experiences. Watch for time.</p>



<p>Properties</p> <ul style="list-style-type: none"> • Large range of properties • General classes with specific characteristics • Appraisal important and more complex • Acceptability for type varies by lender • Type based on highest and best use <p>The importance of the appraisal in commercial lending cannot be emphasized enough. It is often the most crucial factor.</p> <p>www.namb.org</p>	<p>Within commercial you can target a wide variety of property types. Take a drive through your local town. Chances are you'll see retail stores, restaurants, small and large office buildings and automotive service areas. Any and all of these properties may contain a need for commercial financing. However, not all lenders have risk tolerance for all property types. Property type is largely based on "use" and the relatively flexibility of use.</p> <p>Commercial properties are generally grouped into classes such as mixed-used, restaurant, etc. However within these classes each property has its on specific characteristics. For example, a retail store in a downtown area can host a variety of businesses. However, a destination restaurant with special architecture on the outskirts of town will most likely always be a restaurant. The more flexible the property, the less the risk. Pricing usually differs by type. For example, most residential lenders wouldn't a price two houses worth equal amounts differently because one was a ranch and one was a colonial.</p>	
<p>Properties - Types</p> <ul style="list-style-type: none"> • Multi-family <ul style="list-style-type: none"> ▪ Apartments, multi-unit • Retail <ul style="list-style-type: none"> ▪ Storefronts, strip-format • Office <ul style="list-style-type: none"> ▪ Free-standing, multi-unit, large building • Industrial <ul style="list-style-type: none"> ▪ Factory, warehouse • Miscellaneous <ul style="list-style-type: none"> ▪ Hospitality, nursing home, gas station, special purpose <p>www.namb.org</p>	<p>Read the slide.</p>	<p>Can anyone think of any commercial property types not listed here?</p> <p>Can anyone think of a reason a lender may not be interested in one or more of these property types?</p> <p>Can anyone think of a reason to specialize in any of these property types, either as a lender or a broker?</p>

<p>The Lenders</p> <ul style="list-style-type: none"> ❖ Banks (large, regional, small) ❖ Mortgage Bankers ❖ Investment Bankers ❖ SBA Lenders ❖ Thrifts ❖ Hard Money/Private Money ❖ Larger source (Insurance companies, pension funds, REITs) 	<p>Read the slide, providing specific examples for each (in bulleted order):</p> <ul style="list-style-type: none"> • Wachovia, Capital One, B of A, etc. • Locals [use examples from your area] • Go betweens, market makers, InterBay • Private Equity Firms, "Angels" • Government sponsored • Trade-related banks, Credit Unions • Quick, high interest lenders for short term solutions 	<p>Which of these funding sources have you already worked with?</p> <p>What has been your experience?</p>
<p>Lenders - Types</p> <ul style="list-style-type: none"> ❖ Traditional <ul style="list-style-type: none"> • Full documentation • Property, documentation, credit ❖ Intermediate/Non-traditional <ul style="list-style-type: none"> • Low documentation • Property, credit ❖ Hard money <ul style="list-style-type: none"> • Low or no documentation • Property ❖ Specialized <ul style="list-style-type: none"> • SBA (government-sponsored) • Niche lenders <p>Some lenders also require cross-collateralization to mitigate risk.</p>	<p>Commercial lenders can generally be grouped into three main types:</p> <p>Traditional – these lenders require extensive documentation of assets, income and performance. This includes personal tax returns both prior to and following the loan. Full doc lenders are generally more traditional financial outlets such as retail banks and some private lenders.</p> <p>Stated, stated - these lenders ask for income and assets but generally do not verify them. Lending is often based heavily on the real estate and the property's ability to generate income to cover repayment of the loan. Stated, stated programs are generally offered through private lenders such as InterBay Funding.</p> <p>Hard money – these lenders ask for little or no verification but usually charge extremely high rates. These sources are generally used for short term solutions where there is an immediate need for financing. Hard money sources are always private lenders and vary by location.</p>	

<h3>Mapping the borrower to a lender</h3> <ul style="list-style-type: none"> • Know Your Borrower • Know the Property • Know Your Lenders • Provide the Best Solution.  <p style="text-align: right; font-size: small;">www.nambor.org</p>	<p>As I mentioned earlier, selling commercial loans is really about offering solutions, not just quoting rate and options. For each borrower and property, there are usually one or two lenders offering the best solution for their financing needs. Gather as much information as you can about the borrower, property and lender programs before proposing a solution to the borrower or sending a loan into a lender.</p> <p>Next we'll take a closer look at each of these components.</p>	<p>Can anyone think of good questions to ask about a borrower, property and/or lender?</p> <p>(You may want to whiteboard these responses in three columns.)</p>
<h3>Know Your Borrower</h3> <ul style="list-style-type: none"> • Ask open ended questions • Take notes • Look for: <ul style="list-style-type: none"> ▪ Property type ▪ Motive – <i>get the full story</i> ▪ Loan amount ▪ Desired terms and options ▪ Ability to provide documentation ▪ Credit history  <p style="text-align: right; font-size: small;">www.nambor.org</p>	<p>The more you know about your borrower, the easier it will be to provide a solution specific to their needs. Ask open ended questions (as opposed to "yes/no") and take diligent notes on the answer.</p> <p>This also lets the borrower know you're providing a personalized service for them, not just quoting standard packages. Commercial borrowers tend to prefer a greater amount of communication and interaction.</p>	<p>What are the consequences of not knowing the full story on your borrower?</p>

<h3 style="text-align: center;">Know the Property</h3> <ul style="list-style-type: none"> • Ask open-ended questions • Visit <ul style="list-style-type: none"> • Property • Neighborhood • Adjacent area • Get Pictures <ul style="list-style-type: none"> • Inside • Outside • Neighboring property) • Look for: <ul style="list-style-type: none"> • Type and applicable uses • Approximate realistic value • Potential environmental concerns  <p style="text-align: right; font-size: small;">www.namb.org</p>	<p>As much as you learn about the borrower, you need to know even more about the property. Most commercial lenders are relatively specific about the types of properties they lend on and the corresponding rates.</p> <p>Visit the property and take pictures of both the property and the surrounding neighborhood. Most lenders will ask for these photos up front. Providing pictures can help you set the correct expectations with the borrower and save time later on in the loan process.</p>	
<h3 style="text-align: center;">Know Your Lenders</h3> <ul style="list-style-type: none"> • Research the lender • Get referrals • Talk to your representative • Get to know: <ul style="list-style-type: none"> • Programs/Options • Requirements • Property Types • Appraisal approach • Risk Tolerance  <p style="text-align: right; font-size: small;">TIP: Use the Lender Questionnaire.</p> <p style="text-align: right; font-size: x-small;">www.namb.org</p>	<p>The better you know your lenders, the more likely you are to close the loans you send (or avoid extra stipulations and exceptions). Knowing a lender's requirements can also greatly shorten the loan process.</p> <p>Referrals are a great way to find out the inside scoop about a lender, especially nuances and best practices.</p>	<p>Use the Lender Questionnaire in your workshop packet as a tool when gathering lender information.</p>

 <p>Provide the Best Solution</p> <ul style="list-style-type: none"> • Pre-screen borrower information against lender profiles • Determine 1-3 possible matches • Present the borrower situations (executive summary) • Review resulting pre-approvals • Present the best solution to the borrower. • Provide communication/support to the borrower. <p>Because commercial is based on solution, not just rate and options, the borrower looks more to your expertise</p>	<p>Put all three of these components and you'll have a pretty good idea of the right solution to offer for the borrower on their specific property, and what lender or lenders are likely to be the source.</p> <p>Follow these overall steps to qualify your commercial deals and provide the best solution.</p>	<p>Are there any questions about what we've covered or commercial lending?</p> <p>You may want to take this type to provide a preview of the material in Part 2.</p>
 <p>Part 2: Practical Application of Commercial Lending</p>	<p>In this part we'll take an even closer look at commercial loans, including how to pre-screen and/or qualify loans and how to match specific borrowers to specific lenders.</p>	<p>What types of information do you think we should look for when scouting for commercial loans?</p> <p>What methods could be used to qualify commercial loans?</p> <p>(Whiteboard or flipchart responses to compare against agenda on next slide)</p>

 <p>Part 2 Agenda</p> <ul style="list-style-type: none"> ♦ Objectives ♦ Commercial Qualifiers <ul style="list-style-type: none"> ▪ Borrowers <ul style="list-style-type: none"> • Motive, credit, documentation ▪ Properties <ul style="list-style-type: none"> • Characteristics, Income, Value ♦ Qualifying Through Questions <ul style="list-style-type: none"> ▪ Matching to the Lenders 	<p>There are a number of ways we can qualify potential commercial loans. Next we'll take a close look at each one, followed by a discussion of the specific qualification techniques such as income and property evaluation. The income portion includes the appropriate mathematical formulas.</p> <p>We'll then examine how these pre-qualifications act as a tool when deciding which lender offers the best solution for a specific borrower and property.</p>	<p>Who's ready to do some math?</p>
 <p>Part 2 Objectives</p> <ul style="list-style-type: none"> ♦ After completing this course you will be able to... <ul style="list-style-type: none"> ▪ Explain the general commercial qualifications including property, motive, credit and documentation. ▪ Explain the commercial income qualifications including NOI, Cap Rate, Debt Service and DSCR. ▪ Explain the qualifiers used in commercial lending. ▪ Explain the commercial appraisal process. 	<p>Read the objectives.</p>	

<h3>Components of a Commercial Loan</h3> <ul style="list-style-type: none"> • Borrowers • Properties • Lenders <p>www.namb.org</p>	<p>Before we get to the math, let's take a look at all the specific ways we can qualify these types of loans. In many ways they're similar to residential loans: borrower motive, credit history and documentation.</p> <p>Next we'll take a closer look at each component making up the pegs and the holes.</p>	<p>Can anyone tell me why property qualification is so important in commercial lending?</p>
<h3>Qualifying Borrowers</h3> <ul style="list-style-type: none"> • Motive • Credit • Documentation <p>www.namb.org</p>	<p>Let's start by examining the borrower. The borrower profile has three main characteristics:</p> <ul style="list-style-type: none"> • Motive – why they need the loan • Credit – their score and history • Documentation – including not just the documentation they can provide, but the amount of documentation they're willing to provide 	

<p>Qualify Borrowers - Motive</p> <ul style="list-style-type: none"> • Motive <ul style="list-style-type: none"> • Purchase • Cash out • Expansion • Rate and/or term • Repair/renovate • Avoid foreclosure/balloon payment • Partner buy out • Implications <ul style="list-style-type: none"> • Match borrower motive with lender policies <p>BORROWER Motive Credit Documentation</p> <p>www.nabm.org</p>	<p>Borrowers have several motives for needing financing – especially within the commercial world. Keep in mind some of these motives are initially apparent to the borrower and others may be motives even they haven’t considered. For example, a borrower may not have considered renovations as way to increase revenue or realized how close they are running month to month. By questioning the borrower you can actually help them uncover motives they haven’t considered.</p>	<p>Motive examples:</p> <ul style="list-style-type: none"> • Mechanic adding another repair bay • Pizza shop refurbishing the dining room • Accountant buying office space they are now renting • Retail store running month to month • Ramp up for holiday sales or take advantage of product trend • Hire an additional mechanic • Bank has called in the loan • Investor purchasing additional properties <p>What types of questions can help uncover “hidden” motives?</p>
<p>Qualify Borrowers - Credit</p> <ul style="list-style-type: none"> • Credit History <ul style="list-style-type: none"> • A credit • Limited history • “Less than perfect” • Credit problems • Implications <ul style="list-style-type: none"> • Borrowers are generally stratified by level of risk • Some lenders specialize in lower credit <p>BORROWER Motive Credit Documentation</p> <p>www.nabm.org</p>	<p>Credit score and history is pretty straight forward and similar to your experience in residential. Lower scores and problems in credit history can affect loan pricing. Compare the borrower credit to lender parameters and rates to set the right expectations with the borrower up front.</p> <p>Credit history is important, although not usually as important as the property. Credit tends to more important in smaller transactions. Many commercial lender look for a Tri-Merge report to consider all three credit scores and look for problems in the borrower’s history. Score is can be used to determine a rate bracket. However, be sure to know how individual lenders evaluate credit. Also, commercial lenders often require a credit score for all borrowers and any owner of the business, especially those offering a personal guarantee.</p> <p>How do you deliver “bad news” about credit standing?</p>	

<h3 style="text-align: center;">Qualify Borrowers - Documentation</h3> <ul style="list-style-type: none"> • Documentation <ul style="list-style-type: none"> ▪ Full doc ▪ Low doc ▪ No doc • Implications <ul style="list-style-type: none"> ▪ More documentation – less risk ▪ Limited documentation – higher risk <div style="text-align: center;"> </div> <p style="text-align: right; font-size: small;">www.namb.org</p>	<p>The documentation requirements for almost any commercial loan are greater than residential loans. For example, even low doc loans usually require rent rolls and leases for rental properties. One of the easiest ways to differentiate a lender is by the amount of documentation required by their program. Regardless of the program specifics such as rate and term, most lenders require full documentation (income verification, asset verification, tax returns, etc.), low documentation (assets and income stated but not verified) and no documentation. The less documentation provided, the more inherent risk in the loan and consequently the higher the rate. Full documentation loans are usually offered through more traditional lenders such as banks. Low documentation loans are usually offered through more specialized lenders and concentrate more on verification of the property itself and its ability to generate income. No documentation lenders are usually private lenders and often referred to as “hard money.” There is little verification but very high rates within short expanses of time. Commercial borrowers unable or unwilling to provide documentation must seek loans from low documentation and no documentation lenders. This is true of cash businesses and small businesses maximizing their tax returns.</p>	
<h3 style="text-align: center;">Qualifying Properties</h3> <ul style="list-style-type: none"> • Profile • Income • Value <div style="text-align: center;"> </div> <p style="text-align: right; font-size: small;">www.namb.org</p>	<p>If the borrower represents the top of the peg, surely the property represents the length or bulk of the peg. Most commercial lending programs rely heavily on the property profile. As we’ll see shortly, value assessment and the appraisal are much more intense and thorough than residential loans. This is one of the greatest areas of difference between the two.</p>	

Property Profile

- Type
- Location
 - Zoning
- Use
 - Lease, Occupancy
- Value
- Environmental concerns
- Implications
 - Match **property** profile with **lender** parameters

Commercial Appraisal

Due diligence
Insurance

PROPERTY
Characteristics
Income
Value

www.nabm.org

As you might expect, commercial properties are much more complex than residential. Rather than simple listing such as “single-family home ranch,” commercial properties tend to be very specific. For example, consider a “mixed-use” property, a property with at least one residential component and another type of component (i.e. retail store with two apartments on the second floor). In addition, this property would have a certain type of zoning, occupancy limitations and be rented out to a commercial tenant on the first floor and two residential tenants on the second floor. Automatically this requires at least two different types of leases. The commercial lease may be one of several specialized types such as triple net.

Location is also more complex than residential, where location is mainly tied to school district, access to shopping and transportation and surrounding property values. Commercial properties do rely on comparables, but more in relation to similarity of property use.

Property Profile – Type


- Type affects risk or difficulty
- Higher risk means higher rates
- Higher difficulty means more documentation/due diligence
- Both limit the borrower range

www.nabm.org



As you might expect, certain types of commercial properties are inherently more risky than others. For example, multi-family or multi-unit rental properties are relatively stable properties as long as there’s a steady need for housing in the geographic area. They are also relatively easier to run and maintain. Restaurants by contrast are affected by many factors, complicated to run and have a high failure rate.

Why would the properties listed here be considered low or high risk? (use properties listed under the blue arrow)

<p>Property Profile - Location</p> <ul style="list-style-type: none"> ♦ Location affects the viability of the business and is related to use <ul style="list-style-type: none"> ▪ Traffic flow, zoning, etc. ♦ Location affects how quickly the property can be sold (in the event of foreclosure) <ul style="list-style-type: none"> ▪ Effects property value at appraisal ♦ Rural properties are usually more difficult <ul style="list-style-type: none"> ▪ Slower resale value, fewer qualified appraisers 	<p>As alluded to in the previous example, a property’s location directly affects its viability. The location of residential properties is generally affected by school zone and surrounding property values. The location of commercial properties is affected by a variety of factors such as surrounding values, zoning, foot traffic, surrounding property types, etc. Generally the location directly affects how quickly a property can be sold and often the versatility of the property. For example, a restaurant along a town main street has potential as several possible uses such as retail. A restaurant on the edge of town is more of a “destination” and will most likely always be a restaurant. This limits its potential.</p>
<p>Property Qualifiers - Use</p> <ul style="list-style-type: none"> ❖ Types of uses <ul style="list-style-type: none"> ▪ Current use – what it is now ▪ Dominant use – what it should be ▪ Potential use – what it could be ❖ More flexibility increase value <ul style="list-style-type: none"> ▪ Example: retail or mixed use as opposed to car wash or restaurant ❖ Special purpose <ul style="list-style-type: none"> ▪ One main use only (ex: nursing home, movie theater, bowling alley) 	<p>A large portion of a property’s value is tied to its use – what it can or can’t be. For example, a retail store can hold a number of different types of businesses. An office building can hold a number of different types of businesses. However a car wash is mainly a car wash (or a small parking lot). Sometimes there’s a temptation to “stretch” the potential use of a property. Technically, you can make any property into almost any other property type if you spent enough time and money. Strapped for real estate in certain areas, Starbucks Coffee has performed costly renovations to convert former body shops and gas stations into restaurants. Such a conversion is not practical for the average small business. Therefore, commercial appraisals look for a property’s dominant use, the one that makes the most sense.</p>

<h3 style="text-align: center;">Qualify Property - Income</h3> <ul style="list-style-type: none"> • Components <ul style="list-style-type: none"> ▪ NOI ▪ Capitalization (Cap) Rate ▪ Debt service ▪ DSCR ▪ DTI (Debt to Income) • Application <ul style="list-style-type: none"> ▪ Different lenders - different methods ▪ Components generated within the appraisal  <p style="text-align: right; font-size: small;">www.nambow.org</p>	<p>Commercial lending uses several specific ways of qualifying income. Most of these are directly related to the property itself and measure its ability to generate enough income to cover the monthly and yearly cost of the loan. Check with your lender to determine their preferred method of qualifying income. Now we'll take a closer look at each method including the specific mathematical operation.</p>	<p>Which of these qualifiers are you already familiar with?</p>
<h3 style="text-align: center;">Income Qualifiers - NOI</h3> <ul style="list-style-type: none"> • Elements <ul style="list-style-type: none"> ▪ Gross income ▪ Effective gross income ▪ Expenses (utilities, maintenance, salaries, etc.) • Calculation <ul style="list-style-type: none"> ▪ $\text{Effective gross income} = \text{gross income} - \text{vacancy \& credit loss}$ ▪ $\text{NOI} = \text{effective gross income} - \text{expenses}$ • Usage <ul style="list-style-type: none"> ▪ Determines net income gained from the property <p style="text-align: right; font-size: small;">www.nambow.org</p>	<p>Net Operating Income or NOI is a statement of how much the property earns after expenses. For example, a multi-unit apartment building earns gross income through rent. However, the building has several expenses such as utilities, maintenance, taxes, etc. The NOI is the subtraction of these expenses from the gross income received from the rent.</p> <p>[See NOI Facilitator Guide.]</p>	

<p style="text-align: center;">Income Qualifiers – Cap Rate</p> <ul style="list-style-type: none"> ❖ Elements <ul style="list-style-type: none"> ▪ Interest rate market ▪ Investor return requirements ▪ Financing ability ❖ Calculation <ul style="list-style-type: none"> ▪ Rate of return expressed by a percentage ▪ NOI/Cap Rate ❖ Usage <ul style="list-style-type: none"> ▪ Estimates value of the property based on the ability to generate income <p style="text-align: right; font-size: small;">Standard determined by individual lender requirements or their investors' requirements.</p>	<p>The Cap Rate goes a step further by measuring the return on investment the property will provide.</p> <p>[See Cap Rate Facilitator Guide.]</p>	
<p style="text-align: center;">Income Qualifiers - Debt Service</p> <ul style="list-style-type: none"> • Elements <ul style="list-style-type: none"> ▪ P – Principal ▪ I - Interest • Calculation <ul style="list-style-type: none"> ▪ $(P + I) * 12 = \text{Annual Debt Service}$ • Usage <ul style="list-style-type: none"> ▪ Provides the total mortgage payment for a calendar year 	<p>Debt Service is statement of the total yearly payment on the mortgage including both principle and interest. It provides the minimum amount the property would have to make on a yearly basis to cover the cost of the mortgage and allows us to calculate the DTI. It also used to derive other income qualifiers.</p> <p>Note: Most lenders have a low tolerance for loans in which the property has a monthly cost for the borrower. For example: a debt service of \$35,000 secured by a property that only earns \$25,000 net per year. In this case the borrower would have to pay \$10,000 out of their own pocket to maintain the property. The only exception is within markets where properties are expected to greatly accrue value over a short period of time.</p> <p>[See Debt Service Facilitator Guide.]</p>	

<p style="text-align: right;">Income Qualifiers - DSCR </p> <ul style="list-style-type: none"> ❖ Elements <ul style="list-style-type: none"> ▪ NOI (Net Operating Income) ▪ Debt Service ❖ Calculation <ul style="list-style-type: none"> ▪ NOI/Debt Service ❖ Usage <ul style="list-style-type: none"> ▪ Reflects the property's ability to cover the debt <p style="text-align: right;"><small>www.namb.org</small></p>	<p>Several of the preceding qualifiers are actually building blocks to obtain the Debt Service Coverage Ratio (DSCR). The DSCR is a measurement of how well the yearly net income of a property covers the yearly expense of the loan. Specifically, it indicates how positive, neutral or negative the property's monthly cash flow will be. If the DSCR is too tight, a slow period could eventually lead to a default on the loan.</p> <p>[See DSCR Facilitator Guide.]</p>	
<p style="text-align: right;">DTI </p> <ul style="list-style-type: none"> ❖ Elements <ul style="list-style-type: none"> ▪ D – Debt (total debt load) ▪ I – Income (total gross income) ❖ Calculation <ul style="list-style-type: none"> ▪ Debt/Income ❖ Usage <ul style="list-style-type: none"> ▪ Provides the ratio of total debt load to total income ▪ Assesses ability to maintain payments <p style="text-align: right;"><small>www.namb.org</small></p>	<p>Most of you are already familiar with Debt to Income or DTI. This is the method many residential lenders already use, and it's used by more traditional and full documentation lenders in commercial.</p>	

Property Qualifiers - Value

- Value determined by the appraisal
- Commercial appraisals have specific characteristics
- Usually do not include furniture, fixtures & equipment

Residential	Commercial
5 to 10 days	Up to 4 weeks
\$300 to \$450	\$1000+
10-15 pages	25 to 50 pages
Many Comparables	Limited Comparables
Similar Properties	Unique Properties
Brief Area Description	Extensive Market Data

www.namb.org

Property valuation in commercial loans is general much more specific within commercial loans. During the next few slides we'll take a closer look at the commercial appraisal and valuation process.

Does anyone in the room have experience with commercial loans or commercial appraisals?

What was your experience?

How would you compare it to residential?

Property Value - Appraisal

- Types
 - Full narrative
 - Summary
 - Limited or Restricted
 - Form-based
- Approaches to value
 - Income approach
 - Sales comparison approach
 - Cost/reproduction approach
- Appraiser qualifications
 - Member of the Appraisal Institute (MAI)
 - Certified General Appraiser

www.namb.org



Commercial property value is determined within the appraisal, as in residential. However, commercial appraisals are very different than residential appraisals. Commercial appraisals are much more complex, require special appraiser skills and are more expensive. Commercial lenders place much more emphasis on the appraisal because in most cases they are relying on the property to generate income to cover the loan. It's important to set borrower expectations upfront regarding the cost and complexity of commercial appraisals.



Also, make sure you know your lenders appraisal requirements BEFORE ordering the appraisal. For example, rental properties usually require an income approach. Owner-occupied office space may only require a comparison approach. New construction can often take a cost approach.

What are some ways to set the property borrower expectations regarding the commercial appraisal process?

(This activity can also be done as a short role play.)

<p style="text-align: center;">More on Occupancy ↻</p> <ul style="list-style-type: none"> ❖ Level of vacancy can effect value ❖ Most lenders have specific parameters ❖ Leases can be important to valuation ❖ Lease types <ul style="list-style-type: none"> ▪ Triple Net/NNN ▪ Gross lease ▪ Modified gross lease ▪ Apartment/multi-family lease <p style="text-align: right;"><small>www.namb.org</small></p>	<p>When appraising rental properties special attention must be paid to the occupancy and lease terms. Most lenders look for specific documentation such as the leases and rent rolls. In addition, many have minimums for factoring vacancies. The type of lease and any options may also affect the value, since certain leases can generate more income than others, and some leases may not be appropriate on some property types.</p>	
<p style="text-align: center;">Environmental Concerns ↻</p> <ul style="list-style-type: none"> ❖ Possible issues <ul style="list-style-type: none"> ▪ Storage tanks ▪ Chemicals ▪ Waste materials ❖ Possible approaches <ul style="list-style-type: none"> ▪ Environmental studies ▪ Due diligence ▪ Environmental insurance <div style="border: 1px solid blue; padding: 5px; width: fit-content; margin: 10px auto;"> <p style="font-size: small;">EPA Inspections (Environmental studies)</p> <p style="font-size: x-small;">Phase I – Inspection Phase II – Testing Phase III – Clean Up</p> </div> <p style="text-align: right;"><small>www.namb.org</small></p>		<p>Environmental issues are much more of a factor in commercial loans, especially on certain property types such as automotive and industrial. Specifically, the disposal and storage of flammable and hazardous materials can create potential liabilities. Lenders can inherit liabilities as the lien holder. For this reason most lenders require some type of due diligence regarding environmental concerns or a form of environmental insurance policy. Most traditional lenders require a full environmental inspection and certification before proceeding. Any property containing any type of environmental concern is a riskier property and most likely requires a higher rate or price adjustment.</p>

<p style="text-align: right;">Find the Right Hole </p> <ul style="list-style-type: none"> ♦ Your previous research about lenders give you the hole ♦ Use open-ended questions to learn more about the peg <ul style="list-style-type: none"> ▪ Borrower information ▪ Property information ♦ Match the two together <p style="text-align: right; font-size: small;">www.namb.org</p>	<p>As you can see, there are several variables to manage when working with commercial loans. However, these variables usually fall into place when you consider the three main components of the loan: lender, borrower and property. In most cases there are one or two options that are the best solution for the borrower and property. Remember that commercial loans are not about selling rates but about offering solutions.</p>	<p>What are some ways you can adapt your current residential process to handle commercial loans?</p> <p>What existing questions and strategies can you keep?</p> <p>What new questions and strategies should you integrate?</p>
<p style="text-align: right;">Qualifying Through Questions </p> <ul style="list-style-type: none"> ♦ Always ask open ended questions <ul style="list-style-type: none"> ▪ Require more than a yes or no ▪ More efficient than close-ended ♦ Extract as much information as possible <ul style="list-style-type: none"> ▪ Ask follow-up questions ▪ Work your way down to specifics <p style="text-align: right; font-size: small;">www.namb.org</p>	<p>The best way to gather information about a potential commercial deal is well-constructed questions - preferably open-ended questions.</p> <p>The more questions you ask up front, the better off you'll be in the long run.</p>	<p>What is the difference between an open-ended question and a close-ended question?</p> <p>Can anyone give me some examples of either?</p>

 <p>Strategies for Better Questions</p> <ul style="list-style-type: none"> • Acknowledge your own ignorance <ul style="list-style-type: none"> ▪ Every borrower/loan is different • Recognize the client wants you to ask questions <ul style="list-style-type: none"> ▪ If they just wanted to be told, they'd call the Bank. • Plan Your Calls/Visits <ul style="list-style-type: none"> ▪ Develop your questions beforehand ▪ Always start a phone call or visit with a list of questions. • Practice active listening <ul style="list-style-type: none"> ▪ Ask follow up questions ▪ Take notes and follow-up 	<p>It's best to plan out your questions beforehand. You don't necessary have to plan out each individual meeting, but you probably do want to come up with some standard open-ended questions to use with borrowers and lenders. You may even want to have different sets of questions depending on the borrower type.</p>	<p>Optional activity:</p> <p>Divide the participants into teams. Have each team write several close-ended questions and then circle the three most close-ended. Swap the questions between the groups and ask each group to convert the close-ended questions to open-ended questions.</p>
 <p>Commercial Loans – Step by Step</p> <ol style="list-style-type: none"> 1. Thoroughly research your lenders. Understand their programs, requirements and preferences. 2. Ask your borrower questions and learn about their goals, needs and motives. 3. Thoroughly research the property, including the profile, location and possible value. Take pictures. 4. Based on the borrower and property information (the peg) determine the right lender (hole). 	<p>Commercial loans can be more complex than residential loans, but if you follow the steps here you'll be on your way to matching borrowers and properties with the most appropriate lenders.</p>	<p>Any questions?</p>



Thank you for attending Small Commercial Lending, offered by the National Association of Mortgage Brokers. Check the NAMB website for other available courses.

General Facilitation Tips:

- **Take the time to prepare:** *As a facilitator, it is your responsibility to facilitate/train, not present. Take the time to prepare – the audience senses when you are not. Rehearse. Get familiar with the material, and the time it takes to facilitate it. This also includes checking any equipment prior to the session.*
- **Watch the time:** *Stay on schedule. If you are running long, be prepared to cut some material. If you are running short, add in a few more discussions.*
- **Be in the “now”:** *Focus on the audience. Focus on the material. You will easily lose your train of thought if you are not here. Don’t forget to introduce yourself.*
- **Personalize:** *Experiential learning – adults typically learn better by experience. Share your personal experiences and stories – both positive and negative. Experiences & stories help people relate & understand*
- **Avoid reading directly from notes:** *It’s OK to reference them, but do not read from them. In the preparation stage, highlight a few topics/items that will help you stay on track and cover the main points of the discussion. Encourage questions to maintain interactivity.*
- **Speak clearly:** *Don’t mumble. Also, be cautious of the pace you are speaking at (Too Fast/Too Slow). Vary your tone of voice. The same tone can put people to sleep or distract them from paying attention*
- **Use eye contact:** *Pan the room in regular patterns and avoiding reading or facing your presentation (away from the audience.)*
- **Walk around the room:** *This may take leaving your comfort zone. Keeps group focused. Group to pay attention. Breaks up participants distracting the discussion.*
- **Pay attention to the participant’s body language:** *If they are nodding off, or wrestling in their seats, maybe its time for a break! If they look as if they aren’t paying attention (looking around, flipping through materials, etc.) ask questions/opinions.*

Facilitation Checklist

- | | |
|--------------------------|--|
| <input type="checkbox"/> | Review content/notes |
| <input type="checkbox"/> | Review audience (Job Aid) |
| <input type="checkbox"/> | List or note potential questions |
| <input type="checkbox"/> | Consider how to make presentation engaging (Job Aid) |
| <input type="checkbox"/> | Prepare all necessary materials |
| <input type="checkbox"/> | Practice the presentation |
| <input type="checkbox"/> | Review the physical location |
| <input type="checkbox"/> | Ask previous presenters about audience reactions |

Session Information	
Session Name:	
Facilitator Name:	
General Information	
What is my audience's professional background?	
What is my audience's educational background?	
What is my audience's experience in this topic or skill?	
Job Level	
Is my audience entry level, intermediate, senior? Mixed?	
Will my audience be supervising a staff?	
How actively will my audience engage in the topic or skill?	
How often will my audience use this topic or skill?	
Feelings about the topic or skill	
How does my audience feel about the topic?	
Examples: Excited? Nervous? Overwhelmed? Intimidated? Eager to learn?	
How does the audience feel about attending this session?	
Does my audience have concerns about the length of this session?	
Does the audience have current obligations that conflict with this session (items due, etc.)?	
What is the current excitement level regarding the topic or skill?	
Additional Notes	

Activity Name:	NOI Calculation	Program Name:	Small Commercial Lending
Overview	This activity teaches the mathematical calculation of NOI.	Materials:	<input type="checkbox"/> Whiteboard or flipchart
Goal:	Enable the participants to calculate NOI.	Time:	Approximately 15 minutes.

Instructions:

Teaching mathematical calculations involves three activities:

- Demonstration (you perform the operation yourself)
- Participation (they talk you through the operation)
- Practice (they perform the operation themselves)

This activity includes three examples of NOI calculations. With each example participants work more and more independently.

1. Perform the following operation on a whiteboard or flipchart. Instruct the participants to simply watch and not take notes or attempt the calculation on their own.

GRI: \$98,000
 V&C: \$4,900 (5% minimum allowance)
 EGI = \$93,100
 Common Utilities: \$2,000
 Property Taxes: \$5,000
 Property Insurance: \$2800
 Repairs and Maintenance: \$4655 (5% allowance)
 Management Fees: \$4,655 (3-5% allowance)

NOI = \$73,990

2. Perform the following operation on a whiteboard or flipchart, encouraging participation from the students. For example say: "How do I calculate the NOI based on these numbers?" (add the numbers)

GRI: \$74,600
 V&C: \$3,730 (5% minimum allowance)
 EGI = \$70,870
 Common Utilities: \$1,500
 Property Taxes: \$3,800
 Property Insurance: \$2,900
 Repairs and Maintenance: \$3,543 (5% allowance)
 Management Fees: \$3,543 (5% allowance)

NOI = \$78,984

3. Write the following figures on a whiteboard or flipchart:

GRI: \$115,200
 V&C: \$5,760 (5% minimum allowance)
 EGI = 109,440

Common Utilities: \$3,400
Property Taxes: \$12,800
Property Insurance: \$4,800
Repairs and Maintenance: \$5,472
Management Fees: \$5,472 (5% allowance)

Ask the participants to calculate the NOI. Watch to see when everyone is finished and ask for the correct answer. Confirm all participants reached the correct answer.

NOI = \$77,496

4. Say: "Let's try another example." Write the following figures on a whiteboard or flipchart:

GRI: \$120,000
V&C: \$6,000 (5% minimum allowance)
EGI = \$114,000
Common Utilities: \$4,000
Property Taxes: \$9,000
Property Insurance: \$4,000
Repairs and Maintenance: \$5,700 (5% minimum allowance)
Management Fees: \$6,000 (5% allowance)

Ask the participants to calculate the NOI. Watch to see when everyone is finished and ask for the correct answer. Confirm all participants reached the correct answer.

NOI = \$85,300

Watch for:

- Looks of agreement or confusion from participants.
- Participants working too far ahead.
- Participants who do not get the same answer.

Activity Name:	DSCR Calculation	Program Name:	Small Commercial Lending
Overview	This activity teaches the mathematical calculation of DSCR.	Materials:	<input type="checkbox"/> Whiteboard or flipchart
Goal:	Enable the participants to calculate DSCR.	Time:	Approximately 15 minutes.

Instructions:

Teaching mathematical calculations involves three activities:

- Demonstration (you perform the operation yourself)
- Participation (they talk you through the operation)
- Practice (they perform the operation themselves)

This activity includes three examples of DSCR calculations. With each example participants work more and more independently.

1. Perform the following operation on a whiteboard or flipchart. Instruct the participants to simply watch and not take notes or attempt the calculation on their own.

NOI: \$67,960
Proposed Annual Debt Service (ADS): \$53,000

$$\text{\$67,960} \div \text{\$53,000} = 1.28 \text{ DSCR}$$

2. Perform the following operation on a whiteboard or flipchart, encouraging participation from the students. For example say: "How can I derive the DSCR from these two numbers?" (divide NOI by ADS)

NOI: \$49,610
Proposed ADS: \$51,320

$$\text{\$49,610} \div \text{\$51,320} = .96 \text{ DSCR}$$

3. Write the following figures on a whiteboard or flipchart:

NOI: \$70,820
Proposed ADS: \$71,200

Ask the participants to calculate the DSCR. Watch to see when everyone is finished and ask for the correct answer. Confirm all participants reached the correct answer.

$$\text{\$70,820} \div \text{\$71,200} = .99 \text{ DSCR}$$

4. Say: "Sometimes you'll need to calculate DSCR on a property with secondary financing. Let's work through an example that has a proposed second mortgage." Write the following figures on a whiteboard or flipchart:

NOI: \$77,500
Proposed First Mortgage ADS: \$52,300
Proposed Second Mortgage ADS: \$10,900

Ask the participants to calculate the DSCR. Watch to see when everyone is finished and ask for the correct answer. Confirm all participants reached the correct answer.

$$\$77,500 + \$10,900 \div \$52,300 = .82 \text{ DSCR}$$

Watch for:

- Looks of agreement or confusion from participants.
- Participants working too far ahead.
- Participants who do not get the same answer.

Activity Name:	DTI Calculation	Program Name:	Small Commercial Lending
Overview	This activity teaches the mathematical calculation of Debt to Income.	Materials:	<input type="checkbox"/> Whiteboard or flipchart
Goal:	Enable the participants to calculate DTI.	Time:	Approximately 7 minutes.

Instructions:

Teaching mathematical calculations involves three activities:

- Demonstration (you perform the operation yourself)
- Participation (they talk you through the operation)
- Practice (they perform the operation themselves)

This activity includes three examples of DTI calculations. With each example participants work more and more independently.

1. Perform the following operation on a whiteboard or flipchart. Instruct the participants to simply watch and not take notes or attempt the calculation on their own.

Gross Income: \$12,500
 Liabilities: \$3,800
 Proposed P&I Payment: \$2,500

$$\$3,800 + \$2,500 \div \$12,500 = 50.4\% \text{ DTI}$$

2. Perform the following operation on a whiteboard or flipchart, encouraging participation from the students. For example say: "What calculation must I do first?" (liabilities + proposed P&I). "Now how do I determine the actual DTI?" (divided by gross income)

Gross Income: \$4,600
 Liabilities: \$1,200
 Proposed P&I Payment: \$890

$$\$1,200 + \$890 \div \$4,600 = 45.43\% \text{ DTI}$$

3. Write the following figures on a whiteboard or flipchart:

Gross Income: \$7,960
 Liabilities: \$2,450
 Proposed P&I Payment: \$2,240

Ask the participants to calculate the DTI. Watch to see when everyone is finished and ask for the correct answer. Confirm all participants reached the correct answer.

$$\$2,450 + \$2,240 \div \$7,960 = 58.92\% \text{ DTI}$$

Watch for:

- Looks of agreement or confusion from participants.
- Participants working too far ahead.
- Participants who do not get the same answer.