

## **You Want to Close When? The Art of a Fast Close**

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Whew! Glad to have gotten through another exhausting holiday rush. No, I'm not speaking of the rush for last minute presents, but for something much more strenuous and challenging – financing real estate deals that have to close by year end, sometimes within 1-2 weeks. It is that magical time of year when jolly old opportunistic bridge lenders are called upon to work miracles.

But the magic continues throughout the year. There are many reasons other than year-end why a fast closing may be needed. The borrower may have a great opportunity such as an opportunistic acquisition, partner buyout or discounted debt buy down, but must close quickly without any financing contingency or free-look period. Or, a borrower may have waited too long for the perfect financing to come along and now time is running out on the purchase contract, debt maturity or option. Or, the borrower's funding commitment from an institutional lender has been suddenly terminated or re-traded. Borrowers in situations like these often turn to private bridge lenders known for their ability to react quickly and their certainty to close.

### **HOW A FAST CLOSING WORKS**

The following five conditions, if present, facilitate a quick closing:

- The lender's capital base is ready, ample and is open to flexibility in structure.
- The lender is closely controlled and operated, unregulated and is not burdened by endless committee approval and red tape.
- The borrower is sophisticated and prepared. Due diligence materials are immediately available and reliable. The borrower also understands that there will be limited ability to negotiate closing documents.
- The borrower is offering a fat collateral package because the lender's due diligence will be limited, and it cannot worry about being perfect (i.e. the collateral package has to cover a wide margin of error). Also, the exit strategy has to be obvious and clearly feasible.
- The lender's attorney is experienced and always available to take on a new assignment and work overtime. The lender's due diligence team (appraiser,

engineer, market study, accountant, environmental, title, etc.) is always standing ready to jump on a new assignment, is acquainted with the needs and preferences of the lender and delivers feedback to the lender as it is learned instead of waiting until the end.

The art of a fast closing begins with the initial phone call from the prospective borrower. The lender first needs to assess whether the borrower is serious about closing quickly. The borrower needs to understand that the lender is about to jump through hoops and place all other business on hold, and is unwilling to do so unless the borrower is totally committed. A sizeable good faith deposit will generally be required. The loan pricing, which will likely be above-market, should be understood and agreed during the first conversation. The lender's lawyers and due diligence team will also be jumping through hoops, so their costs will normally need to be deposited up front.

### **MAKING IT WORK**

As is always the case, we have had our share of quick year-end closings this past holiday season. The following are two examples.

In early November, a favored borrower of ours requested that we quickly refinance her \$7 million construction loan on a recently completed but unsold condominium project in Florida. The construction loan was not only coming due shortly, but it was not structured to accommodate the release of individual condominium units as they were sold. We were asked to close the transaction before Thanksgiving. We accomplished this by: (a) immediately signing up a conditional commitment; (b) jumping on the next plane to inspect the project and perform some quick market analysis; (c) structure a collateral package that included a secondary lien on another project; and (d) purchasing the existing note and mortgage (rather than repaying it) with minimal amendments to the existing documents.

Another transaction involved a major retail developer in Texas looking to close on an opportunistic acquisition of a grocery-anchored center that had a short fuse. He had his senior institutional financing in place, but was missing a mezzanine component of \$3 million. We signed a commitment on December 3<sup>rd</sup> and closed just before Christmas. We were able to do so mainly because: (a) we were familiar with the developer and had a great deal of trust in his ability to deliver; (b) the due diligence was already completed by the institutional senior lender and only needed some review and tweaking; and (c) we utilized, with few changes, an existing intercreditor agreement that this senior lender had

recently negotiated with another mezzanine lender on a project for this developer, and the balance of our mezz documents were pretty much prepared from other deals of ours and not heavily negotiated by this borrower.

It is important to understand that each of these loans, as with all other quick-close transactions, was priced above conventional market terms for similar transactions. When approached for pricing on a quick-close transaction, we half-heartedly joke that it depends on whether the applicant is requesting our 1-week, 2-week or 3-week pricing. The truth is that quick closings do carry a premium in their pricing. No matter how smart or conservative a lender might be, there is a limit to the level of due diligence and risk analysis that one can achieve in a matter of days. As a result, the transaction is inherently riskier to the lender, and that added risk will be reflected in the pricing. Opportunistic borrowers understand this and are willing to pay for it since it is much cheaper than the alternatives that face them if they do not close the transaction on a timely basis.

***About the Author:*** Arthur Nevid is Managing Director of Mountain Funding, LLC — a direct lender that provides unique private financing alternatives to developers and owners of commercial real estate. Mountain Funding offers one-stop, non-recourse financing, best suited for opportunistic, undervalued or other special situations. Additional information is available at [www.mountainfunding.com](http://www.mountainfunding.com).