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E D U C A T I O N

GUIDE 0006



# **INVESTMENT, & OPERATIONS GUIDE**<sup>TM</sup>

**QUICKLY UNDERSTAND COMMERCIAL LOANS**

**GUIDES DESIGNED TO HELP YOU EXCEL AT ACQUIRING AND OPERATING REAL ESTATE INVESTMENTS**



# REAL STATE INVESTING IN OPERATIONS GUIDES

## Quickly Understand Commercial Loans

When it comes to financing commercial real estate investments, such as multifamily properties, there are significant differences in the loan process and types of loans available compared to conventional home loans. Here's a quick guide to help you understand the differences:

- ✓ **Loan types:** Commercial loans come in a variety of types, including traditional mortgages, bridge loans, and mezzanine loans. Traditional mortgages are similar to conventional home loans, but are generally shorter in term and require a larger down payment. Bridge loans are designed to bridge the gap between short-term financing and long-term financing. Mezzanine loans are typically used to fund the equity portion of a commercial real estate investment.
- ✓ **Interest rates:** Commercial loan interest rates are generally higher than conventional home loan interest rates due to the higher risk associated with commercial investments. The interest rate for a commercial loan is typically based on the prime rate plus a margin, which is determined by the lender and based on factors such as the borrower's creditworthiness and the property's financials.
- ✓ **Loan-to-value ratio:** The loan-to-value (LTV) ratio is the amount of the loan compared to the appraised value of the property. LTV ratios for commercial loans are generally lower than conventional home loans, with most lenders requiring a minimum LTV ratio of 65% for multifamily properties.
- ✓ **Debt service coverage ratio:** The debt service coverage ratio (DSCR) is a measure of the property's ability to cover its debt obligations. Lenders typically require a minimum DSCR of 1.2 for multifamily properties.

As of March 2023, current rates for multifamily loans are generally in the range of 3.5% to 5%, depending on the loan type, borrower's creditworthiness, and other factors.

When financing commercial real estate investments, it's important to work with a lender who specializes in commercial loans and understands the nuances of the commercial real estate market. By doing so, you can ensure that you're getting the best loan terms and are positioned for long-term success. Additionally, becoming a member of Buy it Rent it Profit Education™ can provide you with access to resources, tools, and a community of like-minded investors who can offer guidance and support as you navigate the loan process and grow your investment portfolio.