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## Tight credit means opportunities for alternative commercial lenders

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Alternative lenders in metro Denver are capitalizing on the extreme slowdown in commercial real estate lending by banks.

More developers and investors in commercial properties are going to nonbank lenders — including Montegra Capital Resources Ltd. and JCR Capital LLC, both of Denver — in search of financing for projects, according to real estate experts.

These borrowers often prefer to get funds from banks because of their lower interest rates. But they've had to resort to nonbank lenders, who charge more interest for their loans, to get some projects done. Many of those projects involve the purchase and redevelopment of distressed real estate such as foreclosed properties, created by the recession.

"I have used private lenders for more than 20 years," said Denver developer Jon Cook of Colorado Commercial Capital LLC. "They have helped me over and over and over again jump-start projects."

Cook said he has borrowed money a couple of times from Montegra, but declined to reveal the loan amounts and which projects the funds were for. Cook specializes in developing and redeveloping properties along South Broadway in metro Denver.

Near Yale Avenue, the former used-car wholesaler/retailer built a Smart Car dealership as well as an 18,000-square-foot, three-story office building with ground-level retail space.

The developer hopes to start construction in 2011 on a mixed-use project, to be called The Lumberyards, on 15 acres west of Broadway and near West Jewell Avenue.

"We do bridge loans of one to three years," said Bob Amter, president of Montegra, which has been in business for more than 40 years. "We do short-term loans that enable someone to get from point A to point B."

Borrowing from nonbank lenders can be faster and easier than getting funds from a bank, but borrowers pay for that expediency through higher interest rates.

Montegra makes loans of \$250,000 to \$2.5 million to small- and medium-size businesses, and can authorize a loan in a day. But the company charges 11 percent to 12 percent interest, largely because its loans are short-term, Amter said.

Banks nationwide charge roughly 5 percent to 10 percent interest on commercial mortgage loans, depending on property type, loan term and loan-to-value ratio, according to RealWebFunds Inc., a commercial mortgage lender based in Alamo, Calif.

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**Jay Rollins**  
Founder JCR Capital

JCR Capital charges 10 percent interest on its real estate loans when it also gets 25 percent of a deal's profit. If the company doesn't take a percentage of the profit, its interest rate is in the low- to mid-teens, according to Jay Rollins, JCR founder and principal.

Rollins formerly was a managing director of GMAC Commercial Mortgage Corp.'s structured products group.

"What's going on with banks is only so much of their assets are committed to real estate, and they're at their maximum of real estate loans," Rollins said. "And they're not getting paid back, so they can't get the loans off their books. The bucket is full."

While nonbank lenders do some of the same things banks do — make loans, foreclose on properties with defaulted loans, etc. — they also have major differences. For example, they're not overseen by federal regulators, such as the Federal Deposit Insurance Corp. (FDIC), as are banks. On the other hand, they're affected by business-related laws, such as those for usury; usury laws prohibit the charging of exorbitant interest rates.

Alternative lenders get their funds from

sources such as private investors, including high-net-worth individuals, and life insurance companies. Amter said many of the private capital sources that invest in his company are in the Denver area. Investors get roughly a 9 percent return.

"The life [insurance] companies generally have a larger allocation for lending this year than last year. ... And we've seen the creation of a whole new group of lending sources, people who were once in the CMBS [commercial mortgage-backed securities] business and have raised money for the acquisition of nonperforming properties and notes," said Mike Cantwell, president of Johnson Capital LLC's Denver office.

Those companies include CorAmerica Capital LLC of El Segundo, Calif., and Ladder Capital Finance LLC of New York City.

Johnson Capital of Irvine, Calif., is a commercial real estate investment banking firm that represents borrowers as well as lenders.

JCR Capital, which provides both debt and equity of \$500,000 to \$10 million to borrowers, is trying to raise money for a fund that will provide capital for buyers of distressed real estate and for distressed borrowers who need to restructure notes. The fund even will provide funds to community banks, through joint ventures, to get bad real estate loans off their books.

Rollins hopes the fund will reach its target of \$25 million to \$30 million this year.

To capitalize on the distressed real estate market, JCR wants to hire an investment banker and an analyst, which would give it seven employees.

"This is a hometown firm trying to be a national player kind of thing," Rollins said.

Even though borrowers are turning to nonbank lenders more these days, they haven't abandoned banks. Cook said he still borrows from community banks where he has strong relationships, including Mile High Banks and Heartland Bank. He sits on Heartland's advisory board.

Alternative real estate lenders and banks even cooperate sometimes. "We get a lot of referrals from banks," Amter said.