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Prepping for Lenders' Scrutiny

Property-owners should review permits, approvals and more to avoid delays

LENDERS ARE MORE SELECTIVE AND conservative than in recent years, and it is important for commercial mortgage brokers to ensure that they have all details of their client's operations documented before submitting a loan request.

Brokers and their clients often overlook the fact that through a due-diligence process, lenders will review all applicable permits, insurance policies and general business practices. Brokers can make potential borrowers aware of this scrutiny and advise them to take preventive measures to avoid any loan-processing delays.

Every asset class has its own nuances, and special-use properties often require specific permits, approvals, coverages and standards — categories that any business-owner should review before initiating a loan request and throughout their business's operations.

- **Permits and approvals:** Borrowers should allow enough lead time before loan submission to review the property's permits and approvals thoroughly, to ensure that they are current, and to organize the relevant paperwork. As part of sound business practices, special-use property-owners should regularly monitor basic approvals, permits and licensing for zoning, building, water usage and liquor service, where applicable.

But specific to the property's operations, there are some important approvals often overlooked daily. Specialized lenders have the experience and knowledge to identify these requirements. Lenders will not want indirect or direct exposure by lending to borrowers who have not been in compliance in some critical areas.

For a golf course operation, for example, owners should do periodic internal

reviews of chemical-application permits, errant golf-ball easements for courses located in residential areas, endangered-species designations, and maintenance and usage of wetlands. Not being in compliance in these areas could increase environmental risk and personal liability and may even affect the owner's liability coverage.

- **Insurance:** Most small-business owners know their basic fire- and property-insurance policies. But they may overlook or delay some coverages because of cash-flow constraints.

Lenders will want to feel confident that there are sufficient policies in place to cover all areas of potential liability and that the policies are at up-to-date coverage levels pertinent to the current business model. Many oft-neglected areas include workers' compensation, slip-and-fall liabilities, errors-and-omissions coverage, and directors-and-officers policies.

- **Taxes:** Small-business owners typically keep current with federal obligations, but they sometimes lose sight of state-tax responsibilities, such as state-withholding and -unemployment taxes.

To monitor and ensure that all personnel-related commitments are current, small-business owners can employ an outside accounting firm and payroll-service provider. In addition to filing the business's returns, these firms can offer advisory and reporting services to ensure that a business fulfills all its responsibilities and is aware of new, state-specific taxes or levies.

- **Maintenance:** For businesses involving outdoor machinery and multiple structures, the importance of having frequently scheduled maintenance-reporting

and -repair programs in place cannot be overstated. Other business models can benefit, as well, by conducting periodic reviews of buildings and equipment and by pre-scheduling repair and maintenance tasks, such as exterior painting, roofing and equipment replacement. Enacting a preventive-maintenance schedule can help owners delay or even avoid additional capital outlay, save downtime and reduce potential liabilities. Following such a plan also demonstrates to a lender that the business-owner is an efficient operator.

When seeking funding, brokers and their clients may find that a lack of documentation in terms of current compliance with pertinent permits, licensing and approvals can be a stumbling block to achieving a smooth loan-approval process. For all small-business owners, reviewing pertinent permits and insurance policies, as well as monitoring tax responsibilities and property maintenance regularly, can help them prepare for a due-diligence review and also help protect their operation. ●

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