



By Jerry Sager  
Senior managing director  
First National of America

# Tee Up with Special-Use Lenders

Manage borrower expectations to succeed when funding specialty properties

When brokering a mortgage for a special-use property, such as a golf course, hotel or resort development, it is imperative for commercial brokers to manage their clients' expectations by presenting a realistic picture of the asset class's nuances.

As in many segments, funding sources for golf courses, hotels and resorts are compressed and the remaining active lenders have adopted more-stringent policies. In general, specialized lenders for these types of income-generating properties will want to evaluate the property's value as well as the business's viability.

By sharing your knowledge of how lending practices have changed in the past few years — such as the shifting reporting requirements and how the underwriting process differs from more-conventional mortgage financing — you can prepare borrowers for the constraints that a specialized lender faces today.

## Disclosure requirements

A specialized lender addressing a golf course, hotel or resort development is being asked to make a loan that many other financial sources probably would not or one that does not fit its general lending practices. As such, it likely will ask your client for more documentation than a bank or traditional mortgage lender would typically request. Also, the due-diligence process often can be longer for a specialized property. The documentation requests may become more detailed and more specific as the lender evaluates the property, the business and the principals involved.

The actual depth of the process can be affected by many factors, including the borrowers' prior experience developing this

type of business, the operation's history, how detailed the business plans are, how complicated a potential construction project is and how leveraged the loan will be.

To expedite the process, borrowers should be prepared to provide complete, organized information and full disclosure when they accept a lender's letter of intent. Too often, a process lags as information is submitted in stages.

Some of the specific documentation lenders may request include:

- **Facility and financial information:** Borrowers will be asked to provide complete operating statistics. For golf courses, reporting would include course details (e.g., course yardage, irrigation layout, hazards, etc.), course-routing plans, proposals and leases for equipment, pro-shop inventory, a food and beverage operating budget, membership, greens fees, and cart-rental forecasts. For hotels, similar accounting would include occupancy and rack rates, number of keys, food and beverage sales, and costs per room. A resort development could be asked to provide past sales history, pipeline information and comparative absorption analysis.
- **Management and staff:** Lenders likely will request the résumés for all key operating staff, including details about their prior managerial experience. Principals may be asked to submit personal financial information. A payroll and benefits schedule also should be available for submission.
- **Permits and approvals:** The underwriters and lender's attorneys often will want to review all zoning approvals; culinary and irrigation-water source and use permits; archeological and endangered-species

investigations and approvals; wetland evaluations and approvals; all pending and future required approvals, licenses and operating permits; environmental site assessments; and geotechnical investigations.

- **Construction documents:** Akin to a bank reviewing a typical construction loan, if any new development is proposed, the specialized lender will require submission of all construction documents, such as drawings, specifications and bid packages. In addition, it also will request a schedule of proposed capital improvements that are planned after the initial construction period.
- **Contracts:** To ensure that every element is implemented according to industry best practices, lenders will request agreements and résumés for all subcontractors, including architects, builders, consultants, and electrical and plumbing contractors. Borrowers must also submit construction and performance-bond information for those contractors.

Also, keep in mind that a lender likely will want to secure its own property appraisal from an expert in the specific asset class. Deferring to the lender's designated

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Jerry Sager is senior managing director of First National of America, a leading principal lender to golf-course and hotel owners, as well as resort developers. With more than 25 years of lending history, First National provides financing for the acquisition, construction, and expansion and refinancing of golf courses, hotels and resorts throughout the U.S. Contact Sager at (908) 604-4700 or JSager@firstna.com. Find additional information about First National at firstna.com.

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appraiser can save your borrower time and expense.

### The new reality

Debt conditions have changed in these specialized asset classes in the past three years. For golf-course properties specifically, lenders now focus on smaller loans from \$2 million to \$5 million with lower loan-to-value ratios. Three- and five-year terms are now typical for a fixed-rate loan related to any income-producing real property; in some cases, lenders are moving to even shorter terms, such as 12 to 24 months, with an interest-rate reset at the end of that period.

Spreads have continued to be high as compared to the market's past positions, with limited liquidity available. While commercial market rates have generally remained as low as 5 percent to 6 percent, it is more common to find a range of 8 percent to 10 percent when shopping a loan for a golf course, hotel or resort development.

The specialized markets continue to be compressed, with lenders being selective about the projects on which they are willing to lend and employing conservative underwriting on those they consider. Given liquidity issues, many banks now require deposits as a condition to providing financing.

Good loans still are actively being made in small specialized asset classes, although the number of lenders in each segment is somewhat diminished. Preparing your borrowers for the process requirements and leveraging their proven track record in the segment can help avoid a lengthy and stressful process. ●