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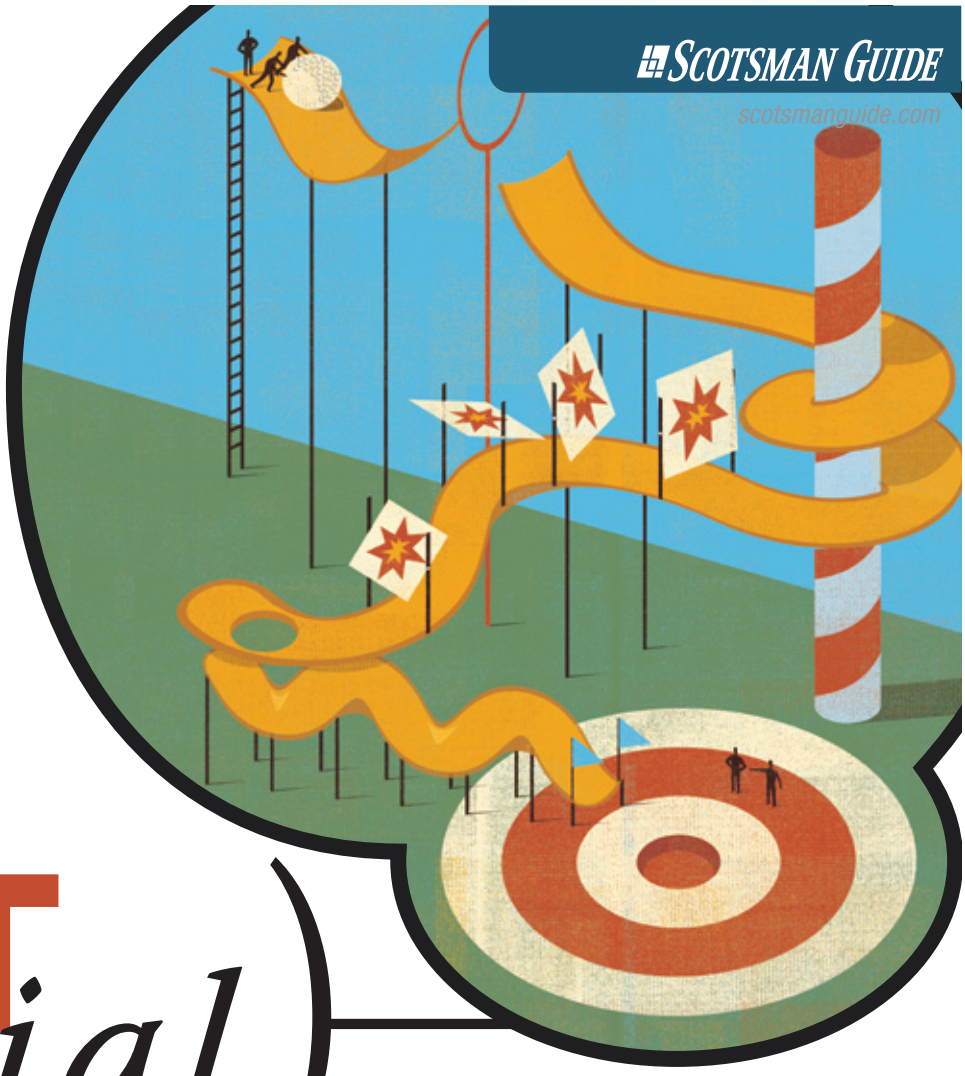

KNOW WHAT TRANSPIRES AFTER THE LETTER OF INTENT FOR SPECIALIZED TRANSACTIONS, SUCH AS GOLF COURSE LOANS

GET *special*

BY TRACY K. SULLIVAN, DIRECTOR, FIRST NATIONAL OF AMERICA

To best manage a client's expectations when brokering a mortgage for a special-use property, it is helpful to know how the underwriting process with specialized loans differs from with other commercial loans. It is also helpful to know why such procedures exist.

Keep in mind that some of the elements of underwriting a specialty property may appear more detailed than in typical commercial financing. That is simply because of the specialized nature of the project.

The underwriting process for golf course construction loans illustrates the detailed due-diligence procedures you may encounter when working with single-market lenders.

THE LENDER'S VIEWPOINT

Specialized lenders make loans that many financial sources probably would not or that don't fit into general lending practices. As such, the lenders typically will ask your clients for documentation items that differ from or are in addition to those that traditional commercial lenders request.

With a request for a golf course construction loan, the lender is asked to lend on raw land that will not have a realized value until it is a developed operation. The lender's examination of the project must therefore be extremely detailed. It will include evaluations of the project-construction costs, the project-development team and

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the future operating retail enterprise (i.e., private club, daily fee, semi-private golf course).

Course-construction lenders will want to assess the future operating potential and the estimated value of the completed project. This assessment differs from other types of commercial-construction projects in which value can be created through the construction and lease-up process. In general, the lender will want the project to service its debt on an amortizing basis within the second year of course operation.

To further minimize risk, the lender will need to verify that proper course-operating practices are in place. For example, it will want to know that an ongoing turf maintenance schedule is planned or that an aggressive membership drive program is included in the marketing plans.

DUE DILIGENCE Often, the due-diligence process can be longer on special-use properties. While the actual process may vary depending on the lender, it can be affected by factors that include:

- **Borrowers' previous experience** developing and/or managing golf course operations
- **Depth of the business plans**
- **How far along the project is**
- **Complexity of the project** (Golf course projects that include residential components are more complicated.)
- **The loan's leverage potential**

A specialized lender's due-diligence process includes requests that are common in construction-loan financing. After the initial letter of intent is signed, the borrowers will receive a due-diligence package with an itemized request for information. The lender should include an estimated timetable that is contingent upon the borrower's timely submission of the information.

In addition to the borrower and property information that traditional mortgage lenders often request, specialized lenders will require documentation pertinent to the construction and operation of the project — in this case, a golf course. While an underwriter evaluating a retail- or office-construction project, for example, may focus on leasing and tenant credit, a golf course lender will be more interested in learning about the type of operation (daily fee, semi-private, equity), rate and rounds-of-play projections or membership structure.

Although the initial due-diligence package may appear daunting, much of the information is readily at hand, having been compiled in a business plan or in contracts already in place.

DOCUMENTATION Specific documentation requested for a construction loan for a golf course or similar project would include:

- **Facility specifics**: The lender will want to know about course statistics (yardage, pars, hazards, etc.); the course-routing plan; structures such as the clubhouse, maintenance buildings and cart storage; food and beverage operations; and pro-shop operations.
- **Financial projections**: The borrower should prepare detailed projections of revenue sources including membership fees and dues, greens fees, cart fees, cafes and the pro shop.

On the expense side, details of turf-maintenance expenses, payroll and benefits, and equipment-leasing costs will be reviewed in addition to departmental expenses for retail operations.

- **Management and staff**: There will be a request for résumés for all key operating staff, such as the general manager, golf pro, course superintendent, membership director and food-and-beverage manager. Résumés should include overviews of their prior experience managing courses.

If a management firm ultimately will handle day-to-day operations, the lender will request that firm's proposal, as well.

- **Permits and approvals**: The lender will carefully review culinary and irrigation water sources and uses. It will also review all zoning and permit approvals. In addition, environmental, archaeological and geotechnical investigations must occur before construction. These investigations will consider wetlands and endangered species.
- **Construction documents**: Like any bank reviewing a construction loan, a specialized lender will require submission of all construction documents, such as drawings, specifications and bid packages.
- **Contracts**: Lenders will want to review agreements and résumés for all parties involved in the project. They do this to ensure the project's planning and implementation meet industry standards.

Affected individuals include the architects (for the course and clubhouse), the irrigation designer and builder, consultants (such as project engineers) and all prime contractors (for course, the clubhouse, other structures, roads and parking). Construction and performance-bonding information will be requested for the contractors.

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Brokers must recognize that specialized lenders have numerous reviews that they must undertake between the signing of an initial agreement and the actual closing. Recognizing this and understanding all the steps in the process will help you prepare your client for the specialized-loan transaction. In so doing, you can also help your clients manage their expectations along the way.

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