Six Myths About Inn Financing

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1. Any bank will do it….

THIS IS A MYTH - Many banks view the hospitality industry as a high-risk property type second only to restaurants. As such, if a borrower is under-capitalized or if the property is under-performing, many bankers may not dedicate the time necessary to understand the whole picture.
Banks who portfolio their commercial loans may have limits on property types or industries, as such the bucket for hospitality may be already filled, in which case loan volume would need to drop out of the portfolio before new loans of that property type can be added.

2. The bank will pre-approve you for a loan…

THIS IS A MYTH - Pre-approving often gets confused with Pre-Qualification. Pre-qualification is a very important step in understanding your purchasing power. See **Pre-Qualification**

3. Banks will help you develop your plan…

THIS IS A MYTH - Banks and non-bank lenders want to know that you understand the business you seek to acquire. They want and need to document that the source of repayment of the loan obligations is as secure as it can be, that is what underwriting is intended to accomplish. The term underwriting relates to evaluating risk factors and risk mitigators.

4. The business cash flow history is everything…

THIS IS A MYTH - Cash flow is important, but not everything. Some bankers understand that you are buying the future and the bank is funding the future. Real estate value and personal financial strength also count, but the banker who is receptive to a hospitality property will look at all aspects of the loan proposal relative to the buyer's qualifications and the financial performance of the property.

5. SBA loans are filled with red tape…

THIS IS A MYTH Government insured loans such as the **SBA 504b Loan Program** does involve more underwriting that the typical non-government commercial loan. The 504-loan program involves two loans, the first mortgage is underwritten by a bank or non-bank lender and the second is underwritten by a Certified Development Company (CDC). When combined, the two loans for a hospitality property and borrowers without direct industry experience can be 80% loan to value (LTV). Rates are fixed at market rates.

The 7a Loan Program can be a useful tool when the loan request relies on projections to obtain an approval or when seller financing is desirable or necessary.

When processed by inexperienced banks and brokers, SBA and USDA loans may be cumbersome. When properly structured and coordinated by qualified professionals, government insured/backed loans may be closed in 45 to 90 days from the time of a complete submission.

6. Banks expect long detailed business plans…

THIS IS NOT A MYTH - **Banks REQUIRE business plans**, especially when the principals do not have direct industry experience. If the past 3 years show declining revenues and or bottom line, a plan must be developed to restore or achieve profitability. You only have one chance to make a first impression. You need to provide the Underwriters with all the information they need to evaluate the associated risks and offset the negatives with positives.

We have templates for the full narrative business plan and executive summary. We also provide 12 month running pro-forma and a five (5) year historical review and projection template.

Rick Newman, Founder

COMMERCIAL CAPITAL NETWORK

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