Viable vs. Lifestyle Inns

Viable Inns: Commercial real estate financings are generally presumed to be serviced by the income from commercial property ONLY. As such a Debt Service Coverage Ratio (DSCR) is used to underwrite the loan. The DSCR or debt service coverage ratio is the relationship of a property's annual net operating income (NOI) to its annual mortgage debt service (principal and interest payments).

Example: $125,000 in NOI and $100,000 in annual mortgage debt service - DSCR = 1.25
Commercial lenders use the DSCR to analyze how large of a commercial loan can be supported by the cash flow generated from the property, or to determine how much income coverage there is at a certain loan amount.

Two of the most important considerations used to determine the viability of a commercial loan request are the DSCR and loan-to-value (LTV). The loan amount may be constrained and the maximum LTV not obtainable due to the DSCR or lack thereof. If the maximum LTV is 80% and the DSCR is less than the lender's required minimum coverage requirements at 80% LTV, the loan amount will be reduced until the minimum DSCR is obtained. In commercial underwriting this is referred to as loan dollars being debt service constrained, not leverage (LTV) constrained. Income earned outside of the business by the individual/s can only be used to offset a cost of living and personal debt and is not considered in this calculation.

Lifestyle Inns: Some percentage of all inns are operated by one partner who runs the inn and another or others who will maintain his or her own career. Innkeepers with smaller inns often rely on this additional income to enhance their financial picture. The innkeeper/s may truly need income from other sources outside the inn to make ends meet. The additional income may be necessary to offset actual losses or losses shown on the inns tax returns.

In these cases, a Global DSCR approach to underwriting is necessary as the simple DSCR is insufficient and will not satisfy the underwriting guidelines. This approach adds all liabilities/debt and divides it into the income from all sources (personal and business).

Quite often Lifestyle inns require residential financing.

Residential Loans

- Uses only income from personal sources to qualify
- Cannot use the income from the inn to qualify
- Income generating residential is non-conforming according to Fanny-Mae
- Cannot use Retirement Assets - Roll Over Structure

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