Three Key Takeaways | Great Lakes Lender Conference

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U.S. HOTEL APPRAISALS

SBA loan programs continue to support confidence among lenders looking into limited- and select-service hotel projects.

Great Lakes Lenders Conference
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SBA lenders from Illinois, Indiana, Ohio, and Michigan recently gathered for the Great Lakes Lenders Conference at the Motor City Casino and Conference Center in Detroit. The two-day conference, now in its 17th year and billed as the Midwest's premier banking event, brought together some 300 bankers, small business consultants, financial and commercial real estate experts, government officials, and corporate and association executives.

Current trends in SBA lending and other routes to funding small business ventures were at the heart of the discussions, which included limited- and select-service hotels. Even seasoned SBA lenders gained a great deal of insight and up-to-the-minute information from experts. Here are some key takeaways from the breakout sessions at this year's Great Lakes Lenders Conference.

504 Lending

The 504 Lending breakout session covered long-term, fixed-rate capital asset financing. Lenders received an overview of the SBA 504 program, including eligibility requirements, project structure, and loan limits.

Eligibility requirements for an SBA 504 program loan include "relevant management experience" and a "feasible business plan," as well as a demonstrated ability to repay the loan according to projected cash flows from the business. Limited- and select-service hoteliers are positioned to take advantage of this program, which is designed to fund smaller-scale, for-profit real estate projects. Well-documented hotel feasibility studies and projections of value are crucial to establishing a successful proposal for an SBA 504 loan.

Generally, the project being financed serves as collateral for an SBA 504 loan. This means that the value (and projected value) of a hotel is a key part of the loan application process, and loan administrators are looking more closely at how this value is established. The SBA program also puts a premium on rural developments and job creation, which could benefit hoteliers in tertiary, non-urban markets and those that hire permanent staff.

Finally, SBA loan administrators are emphasizing the importance of detailed historical and forecast profit-and-loss statements. Hoteliers looking to finance new builds, transactions, or renovations through the SBA 504 program need to provide data on their revenues and expenses in order to demonstrate the viability of the hotel operation and the promise of paying back the loan. This requirement gears the 504 program more toward experienced hoteliers and properties with an established history of operating in the black.

The SBA 7(a) Program

This breakout session provided an overview of the SBA 7(a) loan program, including eligibility, structure, and credit underwriting. The presentation was especially beneficial for lenders new to the SBA and low-volume lenders. Through the 7(a) program, the SBA guarantees up to 85% of loans made by a banking institution, with the latter setting the specific terms of the loan. Some terms apply to all 7(a) loans, which are limited to $5 million but have no set minimum.

Because SBA 7(a) loans come with favorable interest rates and flexible terms, they are frequently used for hotel purchases and refinancing, especially for inexperienced hoteliers, first-time buyers, and owners of economy and mid-scale hotels—branded or independent.

Business Valuation

A business valuation is often required when financing a change in ownership. This session covered the SBA's rules and requirements and also included the discussion of two real-life case studies teaching attendees how to arrive at a "rule of thumb" value.

SBA
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In most cases, these values are used by SBA officials to determine whether a loan application is worth the time to review. Hence, if a real estate asset is claimed to have a reasonable market value based on an established history of annual revenue or other factors, the SBA will be more likely to take the loan application under consideration; however, if the "rule of thumb" value seems too far off base, the application itself is likely to be rejected.

Conclusion

The Great Lakes Lenders Conference made it clear that lenders are still optimistic about the commercial lending environment, their confidence arising in large part from the security provided to banks through SBA loan programs. Both the 7(a) and 504 programs often allow lenders to make deals on riskier ventures, including hoteliers with limited experience or hotel projects without an established, profitable operating history. Owners and prospective buyers of limited- and select-service hotels in the Midwest and throughout the U.S. would be wise to make inquiries with lenders about these SBA programs, particularly when conventional loans prove hard to find.

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