

JLC HOSPITALITY CONSULTING INC

LOAN PACKAGING FOR DEBT FINANCING

PACKAGING YOUR LOAN REQUEST

First, we have to know if the project will work. We determine this by reviewing your completed Market Analysis & Economic Feasibility Report. If your project appears feasible and you want to start development, the goal is to find financing for your project. A large number of items must be reviewed and packaged into a Loan Request before you can get the money and break ground.

Debt Financing is a moving target when it comes to interest rates and amortization terms. One lender can be providing construction loans at 8% Interest - Fixed, while another may require 11%. Closing costs and timelines will be unknown until every element pertaining to the project has been addressed and is in front of the potential lender.

About 40% of our Loan Packaging is for existing hotel owners that need to refinance their existing debt and obtain cash to make necessary capital improvements.

Typically, the hotel owner has called every bank in the region asking for money with no results. One month has turned into six months. Soon a year has gone by. And the owner is no closer to getting his money than the day he started. When that same owner comes to us, we review his materials and correct any deficiencies. We enhance the attractiveness of the presentation in such a way that gets lender attention. Please understand, we are not simply making the same information look nice. We rework the loan request from start to finish.

We will not forward any Loan Request to a lender until we are satisfied with its content. We have long lasting relationships with a host of lenders. We cannot allow our firm to be associated with a project that is not feasible or a loan package that is not professional. These lenders know the quality of our work and know that they will receive everything they will need to make a decision.

We understand what lenders want and we understand what clients need.

You will discover the value of our services in our experience and the quality of our work.

Our work is frequently used to guide the third party reports required by the lender. It is not uncommon for lenders to follow our proposed terms and funding

amounts. Our valuation analysis will guide the appraisal order by the bank. Our debt coverage analysis will guide the bank's loan committee.

The Market Analysis & Economic Feasibility Report is one of the most important items in your Loan Request Package.

You should know everything about your hotel market and plan accordingly. Your Feasibility Report should answer every question the lender would ask --- before he has to ask. When your loan package contains a highly professional and comprehensive Feasibility Report, we have found that the Loan to Value Ratio is preserved and the Net Operating Income is accepted. When lenders see an unprofessional or incomplete Feasibility Report, they start to tinker and redo the financial forecasts. They like to lower revenues, raise expenses and reduce the Cash Available for Debt Service. You don't want this to happen to you! Our work commonly prevents this from happening.

Preparing your Loan Request involves cost budgeting, financing analysis, pre-development work and, in most cases, architectural work. The Franchise Standards have to be incorporated into the project along with ADA requirements, parking requirements and setbacks. As the costs of the project come in, we are constantly re-calculating your project's Loan Coverage Ratio and Return On Investment. If the financial performance is not acceptable, we have to make changes to accommodate lending requirements.

COUNTLESS ISSUES MUST BE ADDRESSED IN PREPARING YOUR LOAN REQUEST

Let's say, for example, you want to construct a hotel on vacant land. We must address the cost of the needed infrastructure. We must consider the financial assistance and developer incentives that are available.

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Let's say, your community has no Tax Increment Financing. In one case, we proposed a tax reduction over a period of years and succeeded in getting the property tax ramped up to 100% over an 8-year period. This is what it took to make it work! As a result, the hotel finally was able to operate with minimal property tax expenses for a considerable time.

We encounter all kinds of situations nationally and in almost every state. For example, a few years ago, Wall Street money was flowing into hotel projects and many new lenders appeared as conduits. When the stock market adjusted itself, these same opportunists were the first ones to turn away from the hotel industry. So, we like working with lenders we know and lenders who know us. These long term relationships is still the best way to go. With these relationships, the hotel lending market is still solid.

Another issue we often encounter is a proposed project being driven by a specific parcel of land as the major portion of equity. Problem is, the proposed property may need to have additional equity to build the type of facilities that will succeed. So, the client may need our help looking for partners.

When we structure a client's hotel loan request package, we consider it a business deal. We view the deal as if we were risking our own money. Our goal is to gain every advantage and make every attempt to reduce necessary expenditures before the closes --- to save the client money. And finally, we guide the client in making decisions that will drive up the Return On Investment.

WHAT ARE THE COMPONENTS OF A GOOD LOAN REQUEST PACKAGE?

You'll find an outline of a Sample Loan Request Package with a description of each section. This will give you an idea of the work required and the services we perform to complete your loan request. This is a small part of the work involved in obtaining funds for your project.

In addition, we perform the following:

We review the information on the business, principals, proposed debt, market data, asset values, and other miscellaneous information necessary to prepare the loan request.

We prepare estimates of utilization, occupancy, average rate, revenues, expenses and cash available for debt service for the first five years of operation. We use the financial projections in your Feasibility Report as a guide. If no financial projections are available, it is the client's responsibility to obtain these from a professional hospitality consultant.

Occasionally, a client provides us with a Feasibility Report, produced by a non-professional, which is incomplete, inaccurate and unacceptable for use in your Loan Request. In these situations, the hotel developer has no other choice than to pay a second time to have the work done right.

We review the construction outline and design specifications provided by the franchise. We review the proposed costs of construction and the financial impact it will have on the financial viability of the project.

We review the itemization of project costs and advise the client of any costs that may be missing, unacceptable or not allowed, depending on the type of loan being sought. Each loan type has certain benefits and drawbacks based on the individual project and developer.

We prepare the estimated debt service based upon the proposed loan structure and calculate the estimated debt coverage ratio. Our methodology is identical to that of most lenders.

We prepare an estimated valuation analysis using the income capitalization approach.

Our methodology is similar to that used in a MAI appraisal.

Our valuation is objective and independent and included in the Loan Request.

We perform the valuation analysis in order to defer your cost of a formal appraisal until after a loan commitment is secured or until required by the lender.

What makes a good Loan Request Package? Here's a sample table of contents for a typical package:

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A HOTEL LOAN REQUEST PACKAGE INCLUDES THE FOLLOWING SECTIONS

<i>Overview of Project</i>	This section provides the lender with a description of the project, size and location.
<i>Proposed Loan Terms</i>	This section will identify the borrower, ownership group, partners, construction loan amount and percentage of project cost, permanent take out loan amount and percentage of project cost, terms sought, amortization sought, interest rates requested, collateral, repayment and the purpose of the loan.
<i>Executive Summary - Market Analysis & Economic Feasibility Study</i>	The inclusion of this information is necessary to validate the future forecast of revenues for the proposed project. Market strength, competitor information and lodging demand information will also have to be validated.
<i>Utilization</i>	This section will outline the first five years of occupancy, average room rate and REVPAR. The financial analysis of the project will review the other various incomes, expenses by type, fixed charges, resulting in projected Income Available for Debt Service.
<i>Franchise</i>	This section will include an executed copy of the franchise agreement and an overview on its impact to the project.
<i>Room Schedule & Schematic Design</i>	The preliminary architectural drawings and guest room layouts are included in this section after they have been reviewed and modified if necessary.
<i>Use of Funds & Equity</i>	An itemization of the Use of Funds will be provided and will include the itemization of the expenses surrounding the project (this may include land acquisition, refurbishments, additions, new construction, and architectural, engineering, development costs, furniture/fixtures/equipment (FF&E), operating capital and infrastructure. Equity is identified.
<i>Valuation Analysis</i>	Valuation analysis will follow the Income Capitalization Approach with the appropriate Discount Rate and Capitalization Rates.
<i>Debt Coverage Analysis</i>	This section will outline the Cash Available for Debt Service, the Debt Coverage Ratio, and Return On Investment through the first five years of the project.
<i>Resume of Partners</i>	Resumes of each partner or borrower are included in this section.
<i>Articles of Incorporation</i>	The executed Articles of Incorporation, LLC or LLP agreement are included in this section of the report.
<i>Borrower Financial Statements</i>	The current financial statements, of every person identified as a "borrower", is included in this section of the report.
<i>Borrower Tax Returns</i>	The previous three years of tax returns from each "borrower" are included in this section of the report.