



Conventional refinance deals (conduit or portfolio loans vs. SBA programs) that can get done today must support the following characteristics and will be subject to FAR more conservative deal terms than previously provided including:

- maximum 60-65% loan-to-value (requiring updated appraisal following a far more conservative income capitalization valuation analysis using a cap rate range of ~12%+ on limited service hotels in non-primary markets to ~9% on full service in primary markets and higher cost of capital);
- pricing: 1 Mo. LIBOR + 7.75 percent to 9.75 percent (floating) or 3/5 Yr. Treasury + 6.25 percent to 7.25 percent (fixed);
- minimum of 1 point to lender at close, 1 point exit fee if loan not refinanced with same lender
- three- to five-year loan term (floating rate may have 2 year initial term w/3 one year extensions requiring payment of extension fees and satisfaction of other performance hurdles);
- 20 to 25-year amortization schedule from loan closing, some interest only period may be possible depending on strength of deal (may be possible to trade hyper-am on the back end for upfront IO);
- Minimum 1.40x debt service coverage based on trailing 12 month in-place cash flow after 3.5% Mgmt Fee & minimum 4% FF&E Reserve depending on age and condition of property (some may underwrite trailing 3 or 6 month periods and annualize to reflect a more conservative stabilized cash flow and provide for further RevPAR declines through 2009-2010 period);
- hotels operating over 100 percent of the Smith Travel competitive set RevPAR index are underwritten to market ADR and occupancy (in addition to being stress-tested in other ways);
- partial to full personal guarantees/recourse depending on overall quality of asset & performance;
- financially strong sponsors with ample liquidity (e.g. liquidity of 20 percent of the refinanced loan amount);
- limited (if any) equity cash-out;
- strong brand/franchise affiliation (Marriott, Hyatt, Starwood, Hilton, IHG) or Wyndham, Radisson, independents in primary markets;
- franchise license expiration of 2 years minimum beyond the loan term; and
- ability to bring meaningful additional business to the bank (e.g. deposits, merchant card servicing, other loans).

Other caveats:

- For certain properties and markets the lender may require periodic (i.e. every 6 months) appraisal updates with a borrower covenant to prepay a portion of the loan balance sufficient to “right-size” the loan to the maximum LTV set at closing.

While there might be exceptions on particularly strong deals, the vast majority of deals that actually get done over the next 12 – 18 months will have the characteristics described above.

Current projections for RevPAR performance show a further decline for 2009 of between 8 to 15% and flat for full year 2010 with 3-5% annual increases through 2013. A three- to five-year refinance program bridges your hotel to a time when leverage levels improve to ~ 75 percent loan-to-value on fixed-rate, 10-year term, non-recourse loans. That will be the time to recapture/cash-out some equity and convert certain hotel loans from short-term floating rate financing to longer term fixed rate debt provided however that your asset plan and hold period are appropriate for fixed rate financing.

Douglas S. Rohrer  
Managing Director  
165 Christopher St.  
New York, NY 10014  
212-537-4796  
(Fax) 866-526-4791  
drohrer@arh-ltd.com  
www.arh-ltd.com