Lenders will be looking to rural Alaska

by **Carlton Smith**
for the Tundra Times

Loan officers who consider commercial real estate loans today will look at a host of factors that, taken together, will determine the success or failure of a new loan proposal.

Let's take the example of a corporation wishing to borrow funds to build a new office building in their community. The project, approved by the board of directors, is designed to house the corporation's offices and to provide needed office space to other businesses and government agencies locally.

In our example we'll provide our bank officer with a total project value on completion of $500,000 with the work to be completed by local contractors and using local labor.

In the last article, we spoke with Chris Anderson, vice president of Key Bank of Alaska. Using the example above, Anderson stated that for this type of project, there are at least six factors that a lender might consider using:

•A loan package presented to the bank should include a file of signed leases for the tenants who intend to occupy the space, including the corporation that will become its eventual owner. These leases will form the backbone of the applicant's proof of a potential income stream over a period of time that will serve to amortize the loan.

•The package should include some local and regional market research, which will ideally include a factual examination of the economic climate in the area, with labor statistics, population data, a review of competitor buildings in the community, and if possible, a review of the vacancy rates for the type of space that is planned to be built.

•The applicant corporation seeking to build should provide current financial statements for the corporation which will help the bank determine the financial stability of the corporation and gain an appreciation for the other financial obligations of the company.

•The proposed project to be built should be sited in a good location, designed for efficiency, and the building plans should also consider a maintenance plan that will address building upkeep on construction.

•Due to the great impact on operating costs, fuel efficiency also was cited as an important element in building design and operation.

•The proposed building should demonstrate that it is compatible with the existing structures in the community. The danger here to avoid is overbuilding in a location where the standards of construction are more basic.

This issue reflects potential liability on the part of the lender if the building is a financial failure and must be repossessed by the lender and found to be unsuitable for another user in the community due to its style or floor plan and appearance or cost.

And, an overbuilt structure is a risk to the purchaser/developer if the building cannot be sold at a later time by its owner because it does not "fit" into the general pattern of building use in a community.

Where no track record of commercial real estate lending has been carried out in the past, both lender and applicant for funds face a challenge. According to Key Bank's Anderson, lenders must get a comfort level with several local issues before a pattern of successful lending can begin.

On top of the list is an accurate picture of the current inventory of office/commercial space in the community. A lender will then get a feel for the demand for space, and the economy of a city itself.

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Then, on a more personal basis, the players need to be identified, such as the contractors who will become involved in the construction. They need to be interviewed and consulted to determine their financial capabilities. The end result in a more local review of a project is a learning process for the lender and a learning process for the potential customers involved.

Long-term, according to Anderson, a mid-sized project such as this will contribute to a lender's data base of information, and the contacts made will help develop longer term relationships with a community not now being served by regular banking activity.

While many "conventional" banks operate in dozens of scattered rural locations statewide and offer both local service and centralized loan programs with decisionmakers in Alaska's largest cities, there are targeted communities in several areas that may soon have banking services provided as their economies improve.

A lending program sponsored by Community Enterprise Development Corp. and teamed with the National Cooperative Bank offers some opportunity for commercial lending for projects in Alaska, according to Alan Williams, CEDC's vice president for loans.

Williams commented on the need for accurate information provided to the lender about the projected future of cash-flows in a commercial venture, particularly where real estate projects are a part of the overall proposal.

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According to Williams, the involvement of the National Co-operative Bank may soon involve more real estate projects and other commerical ventures in-state, provided that the needs are well documented and clear trends for the future demand for the facilities can be provided.

The National Cooperative Bank will participate with a lead bank or will participate fully in a new loan. Compensating balances — deposits in the bank — are not required by NCB when loans are made.

Real estate lending in Alaska will never again see the fever pitch of activity which was spawned by the oil boom of the '80s, with scores of lenders competing for lucrative bank fees and servicing contracts. But with much of Alaska's future resource development to occur in staging areas outside of urban areas, the opportunity to borrow for projects in rural Alaska may turn them into more lasting, stable and expandable projects when the "new" lending patterns sponsor new projects.

With thorough preparation and an effort to understand local conditions outside of urban Alaska, the lenders of the '90s may find some of their best long-term customers in our rural communities.

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