Commercial Mortgage Credit Memorandum

13-Room Motel Financing – Northern Ontario

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Commercial Mortgage Credit Memorandum

with DSCR, LTV, Stress Testing, and CET1 / RWA Capital Analysis

Subject Asset: 13-Room Independent Motel | Northern Ontario

Prepared: June 2026 | Draft for internal credit review

Decision Point	Recommendation / Position
Credit decision	Conditional approval, subject to due diligence and final credit adjudication.
Requested facility	$800,000 commercial mortgage to refinance existing vendor-take-back (VTB) mortgage.
Indicative structure	5-year term with 25-year amortization; monthly principal and interest; final pricing subject to risk rating and collateral review.
Primary repayment source	Recurring motel operating cash flow / net operating income.
Secondary repayment source	Real estate collateral, personal guarantee, assignment of rents, and enforcement of security.
Key approval issue	Validate the reported $300,000 NOI/EBIT and confirm appraisal value supports LTV within policy.

Critical note: This memorandum is materially strengthened, but the transaction should not be approved solely on management-provided revenue and EBIT. The loan is credit-positive only if the financial statements, bank deposits, tax filings, appraisal, insurance, and property condition reports support the numbers used below.

1. Executive Summary

The request is for an $800,000 commercial mortgage secured by a 13-room independent motel in Northern Ontario. The proposed financing is intended to refinance the current vendor-take-back mortgage and optimize the capital structure of a small, asset-backed hospitality operation.

The credit profile is supported by strong reported operating cash flow. Based on 13 rooms, a $140 average daily rate (ADR), and 75% occupancy, the motel generates approximately $498,225 of annual room revenue, rounded to $500,000. Reported NOI/EBIT of $300,000 implies a very high 60% margin. Under an illustrative 8.00% rate and 25-year amortization, annual debt service is approximately $74,094, producing a base DSCR of 4.05x. Even after applying conservative lender adjustments for capital expenditure reserves and normalized management cost, DSCR remains above 3.0x.

The main credit concern is not debt service capacity under the stated assumptions. The main concern is evidence quality. A 60% NOI margin for a small motel is possible only if owner-management is absorbing labor, maintenance is low, and the property has unusually efficient operations. The lender should verify that earnings are recurring, cash-backed, and not inflated by underreported expenses, deferred repairs, one-time contract work, or owner labor not reflected at market cost.

Recommendation: conditionally approve up to $800,000, subject to appraisal, verification of earnings, satisfactory property condition, evidence of clean title, confirmation of VTB payout, personal guarantee, and covenants including minimum DSCR of 1.30x, maximum LTV of 75%, and ongoing financial reporting.

2. Borrower / Asset Overview

Item	Detail	Credit Interpretation
Property	13-room independent motel	Small asset; operating performance is sensitive to a small number of rooms and local demand.
Location	Northern Ontario, small-town market	Potentially limited competition, but dependent on highway traffic, workers, tourism, and local economic activity.

Item	Detail	Credit Interpretation
Business model	Short-term accommodation; possible longer-stay workers	Cash-flow-oriented lodging asset with recurring demand if local industry and traffic remain stable.
Ownership / management	Single ownership / lean operation	Can support margins but creates key-person risk and execution risk.
Security	Real estate mortgage plus lender security package	Collateral coverage is supportive only if appraisal confirms sufficient market value and saleability.

The motel serves a practical local need rather than a luxury or discretionary hospitality niche. Demand is expected to come from highway travellers, regional workers, contractors, seasonal visitors, and local overflow accommodation. The property may benefit from barriers to new supply because a small market with limited demand density often does not justify new branded hotel construction. However, the same small-market dynamic also limits exit liquidity and can create valuation uncertainty.

3. Proposed Financing Structure

Facility Element	Proposed / Indicative Term	Credit Rationale
Loan amount	$800,000	Sized against reported cash flow and expected collateral support.
Purpose	Refinance / payout of vendor-take-back mortgage	Simplifies capital structure and replaces seller financing with institutional debt.
Amortization	25 years	Supports manageable monthly payment and strong DSCR.
Indicative term	5 years	Normal commercial mortgage term; resets allow repricing for rate and credit risk.
Interest rate used in model	8.00%	Illustrative stressable rate, not a final quote.
Repayment	Monthly principal and interest	Reduces principal balance over time and supports collateral de-risking.
Security package	First mortgage, assignment of rents, GSA, guarantee, insurance loss payable clause	Needed due to small-market motel risk and key-person reliance.

4. Key Credit Metrics at a Glance

Metric	Result	Interpretation
Annual room nights available	4,745	13 rooms x 365 days.
Occupancy assumption	75.0%	Strong for a small motel; requires evidence from PMS/booking records.
ADR assumption	$140	Must be checked against actual invoices and local competitor set.
RevPAR	$105	ADR x occupancy; useful operating benchmark.
Annual revenue	$498,225 (approx. $500,000)	Mathematically supports the stated revenue assumption.
Reported NOI / EBIT	$300,000	Strong, but requires normalization for owner labor and capex.

Metric	Result	Interpretation
Reported NOI margin	60.2%	Unusually high; credit approval depends on verification.
Annual debt service at 8.00% / 25 years	$74,094	Monthly P&I payment approx. $6,175.
Base DSCR	4.05x	Very strong cash-flow cushion.
DSCR after capex reserve	3.61x	Still strong after $2,500 per room reserve.
DSCR after capex + management normalization	3.27x	Still comfortably above 1.30x covenant.
Minimum appraised value for 75% LTV	$1,066,667	Formal appraisal must support at least this value.

5. Financial Analysis

The revenue build is mathematically consistent with the stated assumptions. Available room nights equal 4,745 per year. At 75% occupancy, occupied room nights are approximately 3,559. At a $140 ADR, annual revenue is approximately $498,225, which supports the rounded $500,000 revenue figure.

Revenue / NOI Driver	Calculation	Result
Rooms	Given	13
Available room nights	13 x 365	4,745
Occupied room nights	4,745 x 75%	3,559
Average daily rate	Given	$140
RevPAR	$140 x 75%	$105
Annual room revenue	13 x 365 x 75% x $140	$498,225
Reported NOI / EBIT	Management provided	$300,000
Implied operating expenses	$498,225 - $300,000	$198,225
NOI margin	$300,000 / $498,225	60.2%

Credit interpretation: A 60% NOI margin is the most important number in the memo. If true, the deal has unusually strong cash flow. If overstated, the risk profile changes materially. The lender should reconcile reported revenue to bank deposits, card processor statements, OTA records, HST filings, tax returns, and property management system reports. Expenses should be normalized for owner labor, repairs and maintenance, insurance, utilities, property taxes, cleaning supplies, platform fees, and recurring capital expenditure.

NCF Bridge	Amount
Reported NOI / EBIT	$300,000
Less: CapEx reserve — 13 rooms × $2,500	($32,500)
Less: normalized management / owner-labour adjustment	($25,000)
Lender-Adjusted NCF	$242,500

6. Debt Service Capacity and Stress Testing

Base-case DSCR is calculated using reported NOI of $300,000 divided by annual debt service. The table below assumes monthly principal and interest payments on an $800,000 loan. Actual lender schedules may vary based on compounding convention, payment frequency, fees, and final pricing.

Rate	15-Year Amort. ADS / DSCR	20-Year Amort. ADS / DSCR	25-Year Amort. ADS / DSCR
7.00%	$86,288 / 3.48x	$74,429 / 4.03x	$67,851 / 4.42x
8.00%	$91,743 / 3.27x	$80,298 / 3.74x	$74,094 / 4.05x
9.00%	$97,370 / 3.08x	$86,374 / 3.47x	$80,563 / 3.72x
10.00%	$103,162 / 2.91x	$92,642 / 3.24x	$87,235 / 3.44x
11.00%	$109,113 / 2.75x	$99,090 / 3.03x	$94,091 / 3.19x
12.00%	$115,216 / 2.60x	$105,704 / 2.84x	$101,110 / 2.97x

The debt service analysis is strong across all scenarios. At 12.00% with a 15-year amortization, DSCR remains approximately 2.60x. Under the base 8.00% / 25-year case, NOI could decline by approximately 67.9% before reaching a 1.30x DSCR threshold. A 35% decline in NOI would still produce a DSCR of approximately 2.63x.

NOI Decline	Stressed NOI	DSCR at 8.00% / 25 Years	1.30x Covenant
20.0%	$240,000	3.24x	Pass
35.0%	$195,000	2.63x	Pass
50.0%	$150,000	2.02x	Pass
67.9%	$96,323	1.30x	At threshold

7. Valuation and Loan-to-Value Analysis

Collateral support must be confirmed through a formal appraisal. For a small independent motel in a thin Northern Ontario market, valuation should not rely solely on the income approach. The appraisal should triangulate income approach, comparable sales, replacement cost considerations, property condition, room quality, online reputation, and local demand drivers.

Appraised Value	Loan Amount	LTV	Credit View
$1,500,000	$800,000	53.3%	Strong collateral cushion.
$1,200,000	$800,000	66.7%	Acceptable for many commercial mortgage policies.
$1,066,667	$800,000	75.0%	Maximum acceptable under a 75% LTV ceiling.
$1,000,000	$800,000	80.0%	Above preferred level; resize loan or require additional collateral.
$900,000	$800,000	88.9%	Not acceptable for a standard commercial mortgage.

Cap Rate	Value on $300k NOI	LTV	Value on $242.5k Adjusted NCF	LTV
12%	$2,500,000	32.0%	$2,020,833	39.6%
14%	$2,142,857	37.3%	$1,732,143	46.2%
16%	$1,875,000	42.7%	$1,515,625	52.8%

Appraised Value	Loan Amount	LTV	Credit View	
18%	$1,666,667	48.0%	$1,347,222	59.4%

Valuation implication: If the $300,000 NOI is verified, collateral coverage appears strong even at high motel cap rates. If normalized NCF is closer to $242,500 after capex reserve and management adjustment, the deal still appears supportable but becomes more sensitive to appraisal assumptions. At 75% LTV, the minimum required property value is approximately $1.067 million. If the appraisal is below that level, the loan should be resized or supported by additional collateral.

8. Regulatory Capital, RWA, and CET1 Ratio Impact

Key formulas:

- CET1 Ratio = Common Equity Tier 1 Capital / Risk-Weighted Assets (RWA).
- RWA Addition = Exposure at Default (EAD) x applicable risk weight.
- CET1 Capital Consumed = RWA Addition x internal CET1 target ratio.
- RAROC / Return on CET1 = risk-adjusted annual pre-tax contribution / CET1 capital consumed.

Capital Ratio	Formula	Why it Matters for this Loan
CET1 ratio	CET1 capital / RWA	Most important going-concern capital ratio; new lending consumes RWA and therefore CET1 capacity.
Tier 1 capital ratio	Tier 1 capital / RWA	Broader than CET1 but still focused on high-quality capital.
Total capital ratio	Total regulatory capital / RWA	Includes Tier 2 capital; relevant for overall regulatory capital stack.
Leverage ratio	Tier 1 capital / leverage exposure	Non-risk-weighted backstop; usually less binding for one small mortgage but still part of bank balance sheet management.

Risk Weight	RWA Add. ($000)	CET1 @ 12% ($000)	CET1 @ 14% ($000)
75%	600	72	84
100%	800	96	112
150%	1,200	144	168

Risk Weight	Pre-Loan CET1	Post-Loan CET1	CET1 Impact
75%	12.5000%	12.4999%	0.009 bps
100%	12.5000%	12.4999%	0.012 bps
150%	12.5000%	12.4998%	0.019 bps

Interpretation: The standalone loan has an immaterial impact on a bank-level CET1 ratio because $800,000 is tiny relative to bank RWA. The more useful question is not whether this single loan moves the bank CET1 ratio; it is whether the loan earns an adequate return on the CET1 capital it consumes.

9. Capital-Adjusted Profitability / RAROC View

The illustration below uses conservative illustrative assumptions: 8.00% loan yield, 4.50% funding cost, 0.50% annual admin/servicing cost, 1.50% probability of default, and 35% loss given default. These assumptions should be replaced by the lender's internal PD/LGD, cost of funds, and pricing model.

Risk Weight	CET1 at 12%	Spread Income	Admin Cost	Expected Loss	Pre-Tax Contribution	Return on CET1
75%	$72,000	$28,000	$4,000	$4,200	$19,800	27.5%

Risk Weight	CET1 at 12%	Spread Income	Admin Cost	Expected Loss	Pre-Tax Contribution	Return on CET1
100%	$96,000	$28,000	$4,000	$4,200	$19,800	20.6%
150%	$144,000	$28,000	$4,000	$4,200	$19,800	13.8%

Capital view: At 75% to 100% risk weight, the loan appears capital-efficient under the stated pricing assumptions. At 150% risk weight, the capital-adjusted return becomes thinner and may require higher spread, upfront fees, tighter covenants, stronger guarantees, or a lower advance amount. Final pricing should be risk-adjusted, not simply based on collateral value.

10. Operational Assessment

The operating model is efficient but fragile. A 13-room motel with one full-time employee and one part-time cleaner can produce strong margins if the owner is heavily involved. However, this means the business is not fully institutionalized. The lender should treat owner/manager dependency as a core underwriting risk, not a side note.

Operational Area	Strength	Risk / Question for Due Diligence
Staffing	Lean payroll supports NOI margin.	Does the reported NOI understate owner labor or deferred staffing needs?
Room inventory	Small asset is easy to manage.	Only 13 rooms mean a few unoccupied or out-of-service rooms materially affect revenue.
Maintenance	Lower complexity than a larger hotel.	Older motel assets can carry hidden capex: HVAC, roof, plumbing, pavement, bathrooms, fire/life safety.
Booking channels	Potentially steady direct bookings.	OTA dependence can compress margin and expose business to review/ranking volatility.
Management	Owner involvement can improve cost control.	Illness, burnout, or manager departure could immediately hurt operations.

11. Market and Competitive Position

The market appears to have a favourable supply-demand balance if there are limited comparable motels and no meaningful new construction. However, small-market lodging assets are sensitive to local conditions. Credit approval should consider the durability of demand from highway traffic, regional work crews, local industry, tourism, seasonal travel, and nearby events.

- Confirm the true competitive set: local motels, inns, short-term rentals, campgrounds, and highway lodging alternatives.
- Review online reputation: Google reviews, Booking.com, Expedia, cleanliness comments, cancellation trends, and pricing power.
- Check whether revenue is diversified across transient travelers, crews, repeat customers, and seasonal visitors.
- Assess winter softness, highway closures, local employer dependency, and sensitivity to fuel prices and travel conditions.
- Confirm zoning, licenses, fire inspection status, occupancy permits, property taxes, insurance, and municipal compliance.

12. Risk Assessment and Mitigants

Risk	Severity	Why it Matters	Mitigant / Condition
Financial statement reliability	High	$300k NOI is the foundation of the deal.	Obtain financial statements, tax returns, bank deposits, HST filings, card processor records, and PMS reports.
Key-person risk	High	Owner/manager likely drives operations and margin.	Require personal guarantee, key-person insurance, succession/backup operating plan.
Collateral valuation risk	Medium/High	Small-market motel liquidity can be thin.	Formal appraisal; maximum LTV covenant; consider lower advance if appraisal weak.
Capex / property condition	Medium/High	Deferred maintenance can quickly consume cash flow.	Property condition report; capex reserve; annual inspection rights.
Revenue volatility	Medium	13 rooms creates high sensitivity to occupancy changes.	Monitor monthly occupancy, ADR, RevPAR, and booking concentration.
Seasonality	Medium	Northern Ontario demand can be uneven.	Underwrite DSCR using normalized annual NCF, not only peak-season data.
Non-franchised operation	Medium	No brand system or corporate reservation support.	Review online reputation, direct booking mix, and marketing approach.
Regulatory / insurance	Medium	Insurance and fire/life safety issues can impair operations.	Confirm insurance, fire inspection, licenses, and compliance before funding.

13. Proposed Covenants and Conditions

Covenant / Condition	Recommended Requirement	Purpose
Minimum DSCR	1.30x tested annually on lender-adjusted NCF	Ensures recurring cash flow covers debt service.
Maximum LTV	75% at closing; lower if appraisal or marketability is weak	Protects collateral position.
Financial reporting	Annual financial statements, tax returns, rent/booking reports, and bank statements on request	Allows ongoing monitoring of cash flow and revenue quality.
No additional secured debt	No further encumbrances without lender consent	Protects collateral and prevents leverage creep.
Insurance	Property, liability, business interruption, and lender loss payable clause	Protects repayment capacity and collateral.
Taxes and utilities	Remain current at all times	Avoids priority claims and operating disruption.
Capex reserve	Suggested internal reserve of at least $2,500 per room annually	Controls deferred maintenance risk.
Key-person risk	Key-person insurance or documented backup management plan	Addresses reliance on owner/operator.
Cash sweep trigger	If DSCR falls below 1.50x or reporting is not provided	Creates early-warning protection before covenant breach.

14. Due Diligence Checklist

Required Item	Why Needed	Credit Decision Impact
Full financial statements and tax returns	Validate revenue, expenses, NOI, depreciation, owner compensation, and debt load.	Without this, the $300k NOI should not be relied on.

Required Item	Why Needed	Credit Decision Impact
Bank statements / deposits / merchant records	Confirms cash revenue is actually received.	Detects inflated or non-recurring revenue.
Property appraisal	Determines LTV and marketability.	Loan may need to be resized if value is low.
Property condition report	Identifies roof, HVAC, plumbing, electrical, fire/life safety, and deferred maintenance.	May require holdback or capex reserve.
VTB payout statement	Confirms purpose and closing disbursement.	Ensures prior lien is discharged.
Title search and PPSA / lien review	Confirms security position and absence of adverse claims.	Required before funding.
Insurance binder	Confirms adequate coverage and lender loss payable status.	Required before closing.
Personal financial statement	Assesses guarantor support and liquidity.	Important due to key-person risk.
Environmental / site review	Screens for contamination, fuel tanks, or hazardous conditions.	Important for older roadside properties.

15. Final Credit Recommendation

Final recommendation: Conditionally approve the $800,000 commercial mortgage, subject to financial verification, appraisal support, satisfactory property condition, title/security perfection, and covenant package implementation.

The transaction is credit-positive on cash flow. The proposed loan is not aggressively sized relative to the reported NOI, and DSCR remains strong under severe rate and NOI stress. However, the deal should be treated as a data-validation credit rather than a pure cash-flow credit. The lender should be comfortable only after confirming that the $300,000 NOI is recurring, cash-backed, and not dependent on unpaid owner labor or deferred maintenance.

If diligence confirms the stated performance and the property appraises at or above $1.067 million, approval up to $800,000 is supportable. If the appraisal is below policy threshold, NOI is materially lower after normalization, or property condition reveals major near-term capex, the lender should resize the facility, require additional collateral, improve pricing, or decline.

Appendix A: Core Formulas Used

Formula	Expression	Purpose
Revenue	Rooms x 365 x Occupancy x ADR	Builds motel top-line revenue.
RevPAR	ADR x Occupancy	Measures revenue efficiency per available room.
DSCR	Net Cash Flow / Annual Debt Service	Measures repayment capacity.
LTV	Loan Amount / Appraised Value	Measures collateral leverage.
CET1 Ratio	Common Equity Tier 1 Capital / RWA	Measures bank capital adequacy.
RWA	EAD x Risk Weight	Converts credit exposure into regulatory capital usage.
CET1 Consumed	RWA x Target CET1 Ratio	Estimates capital tied to the loan.
Return on CET1	Risk-adjusted contribution / CET1 consumed	Links pricing to capital efficiency.