



JMBM'S SAVE™ Program

Troubled hotel loan solution: Increasing hotel asset values

JMBM's SAVE™ means “Strategies & Approaches for Value Enhancement.”

The Lender-Borrower battle is often a fight over a troubled asset with a value that will not cover the loan amount. There is a “scarcity” of value where the parties are fighting over a pie much smaller than the original. What if there were more pie for everyone?

When a hotel asset is worth much less than its appraised value at loan origination, all the joy is gone from the Lender-Borrower relationship. Most likely, the Borrower is either contemplating bankruptcy, some kind of lender liability claim or “giving the keys” to the Lender.

In its “as is” (and possibly deteriorating) condition, the hotel asset value is just not there to satisfy the loan, much less pay other creditors or equity holders. But there may be a way to materially increase the value of a hotel asset for the benefit of the Lender and the Borrower.

The Lender and the Borrower should ask:

What stakeholders could effectively make contributions to the value of the hotel asset which might be significant in the aggregate?

With a team of veterans that have been through many economic cycles, we have seen just about everything that can be done in the Lender-Borrower dance over a troubled hotel loan. JMBM has a different approach. Rather than engage in the typical adversarial battle over limited asset value, the SAVE™ Program is designed to increase asset value by looking at sources beyond the Lender and Borrower, so there is *more to go around* for everyone.

How does the SAVE™ Program work? The SAVE™ Program increases the size of the pie (the hotel's asset value) with all available tools – operating efficiencies, RevPAR enhancements, effective capital improvements, rebranding and repositioning alternatives, new management, various alternatives to foreclosure – and one more: bringing more stakeholders to the table.

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Does this sound like one of your Loans?

You are the Lender. You made a \$100 million loan on a luxury hotel with a major brand just a few years ago when the hotel was appraised at \$130 million. Today, this hotel would sell for a mere \$65 million. You are underwater!

The Borrower has defaulted on loan payments. Cash flow from the property is no longer covering debt service and may soon be inadequate to cover operating expenses. All the key loan covenants are in default. As you prepare to file the Notice of Default, you review articles, including "Butler's Matrix" on www.HotelLawBlog.com.

How are you going to maximize the value of this hotel asset and get it off your books? Short of prolonged litigation or bankruptcy, what are your options?

Other than the Borrower, are there any other stakeholders who could contribute to this shortfall?

Here is what you know:

- Declaring the loan default could trigger a loss of the hotel's flag, and the flag seems to drive rate and occupancy. (But you wonder if the income from the brand justifies its big costs for high service levels and endless capital improvement programs.)
- The brand's long-term, no-cut management contract discourages more than 80% of the potential buyers of the hotel and may halve its sales price. The hotel may also owe large sums to the brand.
- The union contract might be adding 35% or more to the cost of operating the hotel and discourage buyers.
- The Borrower will soon hire lawyers (perhaps from law firms that are known for a "scorched earth" litigation approach).

But your hands are tied (or are they?), because you are "just" the Lender. Any attempt to exercise control over the Borrower could subject you to lender liability, subordinate your debt, and would probably be fruitless (why would the desperate Borrower listen to you?). What can you do?
Benefit from the SAVE™ Program!

Hotel Lenders can require Borrowers to participate in a value enhancement analysis like

JMBM's SAVE™ Program. Whenever the Borrower needs a forbearance, a Lender can require – as a condition to the forbearance – that the Borrower hire a legal and advisory team for the sole purpose of developing with the Borrower and Lender a “workout plan” designed to maximize asset value. Engaging JMBM's creative and analytical pragmatists to perform a **SAVE™** analysis can increase a hotel's asset value by 20% to 30%! We have seen increases of up to 100%.

The SAVE™ Program is a win-win for all. Even if the Borrower is already in bankruptcy or there is pending litigation, participation in the **SAVE™ Program** may create a win-win solution for all involved. For a \$100 million project, a 20% to 30% increase in value is \$20 to 30 million!

- Why would a Borrower go to all this trouble?
- Answer: Perhaps to reduce exposure on personal guarantees . . . perhaps to save the asset with a workout.
- How? Enhanced asset value can provide the Lender with a significantly greater recovery and still leave plenty of “currency” for sufficient Borrower incentive.

The “have not” alternative for a desperate Borrower is likely a “scorched earth” strategy in which the Borrower will hire lawyers to fight the Lender every step of the way – maybe from one of the firms known for the no-holds barred bankruptcy and lender liability approach to big loans. For Lenders that understand all too well what this scenario looks like, the **SAVE™ Program** is an attractive alternative.

JMBM will limit representation to the SAVE™ Program for referring Lenders. Lenders who suggest their borrowers participate in a value enhancement program and provide JMBM as a suggested provider of that service can be assured that JMBM will not pursue any lender liability claims against the referring Lender. The Firm will not accept engagement to pursue lender liability or other litigation claims by that Borrower against the Lender. Our role will be strictly limited to the **SAVE™ Program**. The Borrower will need to obtain other bankruptcy or litigation counsel if it wishes to pursue such claims. Ask for details.

Straight talk and a pragmatic approach to enhance hospitality asset value with **SAVE™**. If there is a way to enhance your hotel's value, creating a win-win for the Hotel Lender and Borrower, we will find it. If there is not, we will tell you. Our goal is always to find alternatives to increase hotel asset value. We usually succeed.

Additional resources are available at www.HotelLawBlog.com. Click on the “HOTEL LAW TOPICS” tab, and then select “Workouts, Bankruptcies & Receiverships.”

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