

Case History – E

Asset Type → Corporate Housing Community

Debt → \$3.8MM

Bank → Regional Bank

Resolution Focus: Personal Guarantee Increases, Maturity Default, LTV Covenant Violations

Case

Our client acquired a 36 unit corporate housing community in October, 2007 and placed a two-year interest-only loan at Prime Rate minus $\frac{1}{4}$ with a 7.5% floor and a 50% personal guarantee. Nearing loan maturity in late November of 2009, the bank denied long-term financing due to an LTV below 80%. To avoid a new property appraisal, the bank agreed to a six month loan extension at 6% IO and a 100% personal guarantee. As cap rates continued to rise and market rental rates decreased, our clients were rightfully hesitant to increase their liability to 100% for only a six month extension.

Once engaged, our team performed thorough economic, financial and legal analyses of the both the asset and client. The findings included:

1. The bank had only been charging an interest rate of Prime minus $\frac{1}{4}$ and the clients were liable for \$240K in back interest due.
2. The property was economically viable at a 6% interest rate,
3. The state of the economy made it nearly impossible for the property to meet a LTV of 80%.
4. The bank unnecessarily increased the personal guarantees to 100% to gain leverage over our client knowing full-well the property would never meet an 80% LTV required for the permanent financing.

Resolution

During negotiations, we convinced the bank they did not have the expertise to operate this asset as a corporate housing project, and their best option was to keep the clients in the deal. The bank reversed course and engaged in more realistic negotiations. The bank agreed to waive the \$240K of back interest and keep the guarantee at 50%. The bank also offered the clients a long term loan on the property if certain benchmarks were met. The clients were able to achieve those benchmarks the bank gave them the long term loan and they were even able to cash out \$5,000. The clients were most pleased with our ability to manage their liability, maintain the 50% personal guarantees and keep them in their asset.