When you can't make your loan payment

Foreclosure and bankruptcy are ugly options for struggling owners. But there are other options when a bank calls your loan or you simply can't make the payments any longer. **BY STEVEN M. EKOVICH**

Remember the old joke, "Why do they call golf, golf?" Answer: "All the other four-letter words were taken!"

Today, banks seem to be the new "four-letter word" for many golf course owners.

Many feel they have put their blood, sweat, money and tears into their courses only to lose them to a financial crisis beyond their control. To these owners, banks have become the villains — rightly in some cases and wrongly in many others.

While it is the bank or lenders' responsibility to protect their shareholders, do they always have to foreclose? The good news is that you do have options — some that require access to equity or debt, and some that do not.

So, what do you do when the term on your loan is up and the financing on the course is higher than the market value? What do you do when you have never missed a payment, but the lender calls your loan because you are in technical default? (Technical default can occur for a number of reasons: your debt coverage ratio falls below that stated in your loan documents, your financial statement looks worse than when the lender made you the loan, your financial statements for the course, as determined by the lender, puts their security in financial risk or they just want to get rid of your loan.)

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What do you do when you want to refinance to pay off some debt? What do you do when you want to purchase more golf assets at today's depressed values?

In the last year, every one of these issues have struck our clients. Without debt — the grease that lubricates investments — things get stuck. Debt makes everything easy to purchase, refinance and operate. What do you do as an owner if you are stuck?

We will examine a number of strategies from the point of a seller who needs debt to continue to run their operation, but the lender has called the loan: the loan term is due, they are in technical default or the lender just wants to get rid of their loan. But first, the most important advice we can provide is not to surprise your bank. Have open and honest communication before you are in trouble.


COMMENTARY

OPTION 1: The easy solution is to come up with equity to pay down or pay off your loan. In many cases, the lender will keep the loan on the property, but they want lower leverage and more security for the lender, which means they have less of their funds at risk. In most cases a lender will allow you to pay down the loan with equity and will extend your loan even if your loan term is up and you can prove there are no other financing options available.

Why would they do this? No institutional lender wants to foreclose. We work with banks all over the United States with their non-performing or REO loans (REO is when the lender has foreclosed on the asset), and most banks believe taking a golf course back in foreclosure is like accepting leprosy. They don't understand golf; they don't understand how to run golf assets; they haven't had to foreclose on golf assets over the last 15 years like they have with apartments, retail and office. So, they are just not familiar with them, and they know it is nearly impossible to refinance them.

OPTION 2: Another course of action is to pay off the loan in its entirety. Many banks are offering discounts to pay off the loan early from 15 percent to as much as 35 percent.

OPTION 3: Find a local lender to refinance the course. This strategy will not help you if you can't make your loan payment, but can help if your loan is being called. The big three, Textron, Capmark and GE, are all out of the market, leaving the local banks as the only real source for golf course financing. In order for that to work, an owner needs to live with low leverage, in