Sensitively Resolving A Family Crisis

" I am writing to thank you for all of your tireless efforts on the... Project. I think your "independent" analysis was critical in moving the family to an acceptable resolution of this problem loan. I appreciated your candor and wisdom. I think we made a good team."

In House General Counsel

The Problem

Mantell Advisory's clients were a husband and wife in their 50's who had inherited, years earlier, a sizable interest in her family's real estate development business. Now, in a second generation of family management, under the husband's guidance the family owned dozens of shopping centers and was in development of several new ones. Unfortunately, the new centers were in severe distress due to leasing that suddenly stalled in the midst of the financial crisis.

The couple, along with the wife's siblings, were co guarantors on multiple maturing loans, the largest reportedly a 40 million obligation. The clients lacked the resources to meet those capital calls and, believing themselves insolvent, asked Mantell Advisory for assistance. The problem was compounded when, on the day after Mantell Advisory accepted the assignment, the husband was suddenly incapacitated.

The Request

The clients' goals were stated in stark terms: protection from creditors and bankruptcy avoidance.

The Analysis

The clients' personal financial assets were scheduled. Next, pro-forma cash flows were created for each of the family owned properties. As to the new development projects, the feasibility of turnaround was evaluated by modeling their revenues and expenses including additional capital investments to the point of stabilized operations.

At the same time, the wealth and liquidity of the co guarantors the wife's two siblings was determined and an investigation of the wealth and estate planning of the surviving family matriarch was completed.

These investigations, conducted expeditiously but rigorously, revealed several critical facts: the most important was that under the applicable loan agreements the most feared 40 million liability was in all likelihood limited to 10 million; a second was that discord within the family was impeding effective negotiations with the family's lenders. While the situation was certainly complex and serious, it seemed there was a clear and palatable way out for the clients if family cooperation could be achieved.

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The Analysis (continued)
"It became apparent that bankruptcy wasn't the issue and never would be," Mr. Mantell says. "The problem was the family itself. They had major inherited wealth, which can sometimes lead to issues among family members. We realized there had been years, even decades of familial discord – sister-brother and so forth – that was inhibiting the ability to find a solution to the problem."

The Solution
The overall strategy had two parts. First: get family members to close ranks and work together.

"Instead of focusing on bankruptcy, the possibility of which was nil, we set out to bring the family together and achieve consensus around a joint strategy for lender negotiations," he said. "We concluded that a huge advantage could be gained by relying on the combined resources of the family as a whole as we sought relief from their lenders."

A critical step in the process was predicting how much new money the family would need to put up, as a group, in consideration for loan workouts regardless of who advanced the funds. Then, to reconcile the family, Mantell Advisory brought about agreement that certain of the siblings would fund disproportionately, but with later equalization using adjustments to their future inheritances. Those adjustments were made possible by obtaining the accord of the family matriarch and then arranging modifications to her estate plan to accomplish the intended results.

Steps taken:

- Determined the available liquidity of the family as a whole
- Established a strategy for loan renegotiation
- Persuaded family members to work as one for a common goal
- Modified the estate plan of the family matriarch to equitably distribute responsibility within the family

With that in place, it became feasible to implement the second part of the strategy: advantageous loan renegotiation. The central theme was no new risk; no additional family funds would be invested except on condition that the family's combined guarantee obligations would be reduced dollar-for-dollar. In addition, lengthy loan extensions would be sought, to optimize the possibility of turnaround.

Armed with authority to act on behalf of the whole family, Mantell Advisory proposed workout terms to the key lender that were later accepted essentially unchanged: 4 million of new funds would be posted, reducing the future guarantee to 6 million despite that the new funds would be permitted to be expended for future development costs. In consideration, Mantell Advisory demanded – and obtained – a five-year extension of the expired construction loan at extremely attractive rates.

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The Solution (continued)
Lastly, in the course of the preparatory review of the applicable loan documents, Mantell Advisory saw the possibility that a substantial portion the 4 million of new funds could come from property operating revenue, despite that those revenues had been previously reserved and pledged to the Lender. As a result, the funds the family would have to advance could be approximately halved. In that way, previously reserved funds, though not a part of the family's personal wealth, could be used to reduce their guarantee obligation.

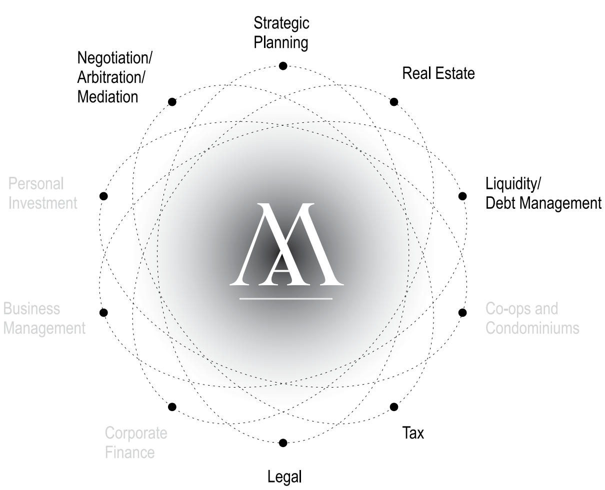
In the end, the clients who first came to Mantell Advisory thinking they would somehow have to find $40 million to satisfy their contingent liability wound up only needing to post less than 3 of that amount.

Steps taken:

- Reached accord with the Lender on what the family would post
- Got the Lender to credit that amount against the family's contingent liability
- Induced the bank to extend the terms of the loan by five years, thus precluding the possibility of any imminent seizure of the property in question
- Arranged for nearly half of what the family was required to post to come from sources other than their liquidity, thus preserving family capital and reducing their guarantee exposure at no cost to the family

The Results
Benefitting from Mantell Advisory's expertise, the clients achieved their goals and more: they avoided bankruptcy, stabilized their personal financial condition, retained control of a key property with time to pursue a turnaround, and reorganized the family finances in a more equitable and agreeable fashion.

Areas of Expertise Applied



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