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Getting Unstuck: How to Reboot Your Course and Your Finances

Matt Galvin, President & CEO, Morningstar Golf and Hospitality, LLC

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- Understanding the root of the issue –

Is it an issue with income and expenses?

Income statement

Is it related to your liabilities?

Balance sheet

Debt maturity

Interest rate, amortization or other covenants

Other liabilities – membership deposits refund liabilities



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- Understanding your liabilities

Recourse or non-recourse

Time frames – long term or immediate



- What do you want to do?

The possible solutions may be different depending upon the desires of the owner.

Do you want to sell in the near future? Do you want to keep the property indefinitely? Is this the source of your family's income or are you not wholly dependent upon it?



- Is a third party an option?

Management contract – any “special sauce” or experience and resources not available to you?

Lease – Possibly shift the financial obligations

Operations consultant – Ideas and implementation

“Workout” consultant – Maybe more objective, some legal advantages, “good cop” versus “bad cop”.



- Good faith communication is the most important item – lenders, members, other stakeholders.
- Lender options & “Do’s and Don’ts”
 - Current refinance market
- “Workout” with your lender
 - What lenders will look for
 - Modification options
 - DPO options
- **Case Studies**



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- Membership structure issues and options
- Case studies



- Property sale options – the current market situation
- Case studies



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2014 Lending Terms Overview – What we are seeing . . .

Rates: 5.5% – 8.0% (*rates are rising*)

Term: 3, 5, 7, and 10 years

Amortization: 25 – 30 years

Debt Service Coverage (“DSCR”) Underwriting: 1.5 – 2.0x

Appraisal LTV:

- 50% – 65% Insurance Companies
- 50% – 70% Banks

Guarantees:

- Required for SBA transactions, Local Banks
- Carve-out or “limited guarantees” required for Life Companies

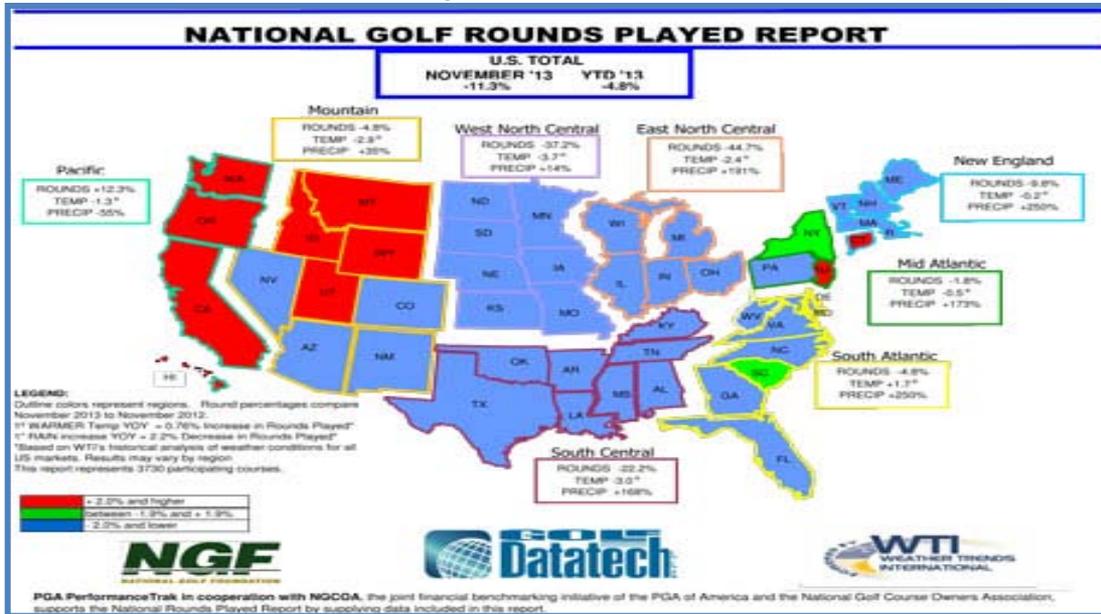
Lenders Making New Loans:

- A “few” smaller Banks with SBA
- Select Insurance Companies
- Some exceptions exist



Lenders Perspective on Golf

- Many lenders that had golf loans realized loan losses in 2008-2012 (foreclosures, discounted payoffs, REO's).
- National Golf Industry rounds statistics have not shown a significant rebound. 150 courses are closing yearly.



- Lenders are seeking to make low risk loans as they work to improve bank profitability.
- Lenders do realize that some good loans exist in the golf industry.



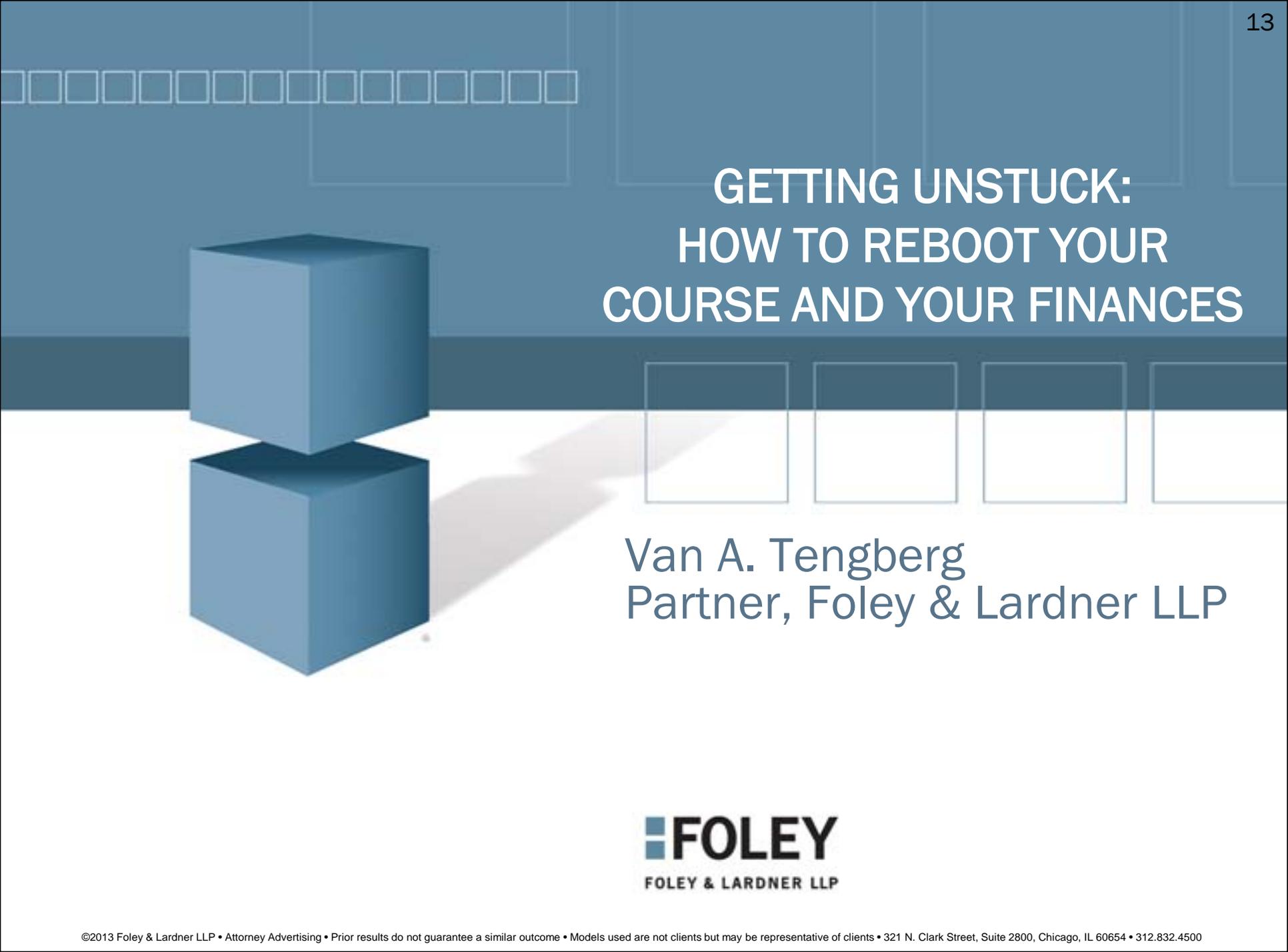
Need to Negotiate a Loan Modification? Extension?

Do:

- Communicate early
- Be 100% clear on what you need
- Show steps taken to meet current loan terms
- Show steps on how its going to work out in future
- Show commitment to lenders needs / goals
- Get information from NGCOA & other organizations to highlight trends in the business

Don't:

- Wait until last minute
- Try and pressure / threaten the lender
- Ask for unreasonable terms
- "Go silent"
- Offer what you can't deliver



GETTING UNSTUCK: HOW TO REBOOT YOUR COURSE AND YOUR FINANCES



Van A. Tengberg
Partner, Foley & Lardner LLP



Membership Deposit Refund Liability

- How concerned should Club owners be about membership deposit refund liabilities?
- How concerned should Club members be about membership deposit refund liabilities?
- How concerned should potential Club purchasers be about membership deposit refund liabilities?



Historical Perspective Behind Refundable Membership Deposits

- Private clubs historically structured golf membership programs to provide for the return/refund of all or a portion of the membership initiation fee/membership deposit.
 - Significant tax benefits to the Developer.
 - Refund usually based on formula – 3 or 4 new memberships sold and then 1 membership sold from the member resigned list.
 - Conditions precedent for refundability include dues payable for a designated period of time through the date of refund (preferable) and member must otherwise be in good standing as of date of refund (preferable).



Economic Reality (most markets)

- Membership values in private clubs are declining.
- Downward pressure on membership fees/deposits.
- Attrition at private clubs increasing (due to relocation, health issues, change of employment and economic considerations).
- Number of members on the resigned members list increasing.
- Demand for traditional lifetime more expensive refundable memberships decreasing.
- Demand for annual/seasonal/less expensive non-refundable memberships increasing.
- Financing membership fees more common.





- Dues line decreasing (whether due to decreased number of memberships or dues cut-off for members on the resigned members list).
- EBIDTA decreasing.
- Refund amount obligation (i.e. the amount payable to resigned members is more than the membership fee payable by new members (assuming there are any)

Ex: 5 years ago:

\$50K 80% refundable

Now:

\$10K

Seller must finance





What is on the minds of Club owners?

- The Club is drowning in debt.
- The resigned member list is growing.
- The number of dues paying members is decreasing.
- Club can't sell new refundable golf memberships because:
 - Growing resigned member list
 - Fear of being stuck and not being able to get out.
 - Fear of losing membership fee/deposit.
 - Fear of Club's prospect for survival.
 - Decrease in demand for golf.
- Desire to minimize capital outlay.



- Sale of annual, seasonal, mid-week, etc. memberships to “back fill” angers existing members.
- Cap X improvements are being deferred.
- Maintenance of the club facilities is declining.
- Overall quality of the club experience is declining.
- If eliminate the refund obligation, potentially faced with massive COD income/tax liability.
- I am between a rock and a hard place – how do I get out from underneath this? How do I reboot?





What is on the minds of Club members?

- Many of the same things that are on the minds of Club owners.
- Will I ever get my refundable membership deposit (i.e. my investment) out? Is my investment lost?
- How high will the dues go? As more and more members leave, will the remaining members have to carry the load?
- Will the club survive?
- I own real estate in the surrounding community, what will be the impact on housing prices and values?





What is on the minds of potential Club purchasers?

- Potential Club purchasers and their advisors are very concerned about membership deposit programs and the refund obligation.
- Generally risk averse, more so today than in recent history.
- Closely examining membership deposit refund programs and the liability associated with each and every membership, both now and in the future.





Market Conditions/Impact

- As a result of the economic reality described above and the concerns of potential Club purchasers, there has been a dramatic slowdown in the number of private clubs (with a refundable membership deposit program) sold in the last few years.
- Many sophisticated/experienced Club purchasers will not touch a private club which has a membership deposit program with a substantial membership refund obligation.



What is keeping potential Club purchasers from pulling the trigger?

- How do you value a private club with a membership refund obligation? How resolve the problem (i.e. clean up the mess and reboot)?
- Difficult, if not impossible, to value a private club with a membership refund obligation.
- Existing members (especially those on the resigned list) want to know (and demand to know) what actions will be taken by new owner to reduce the seller's waiting list and increase membership sales.

Ex: 5 years ago: \$50K, 80% refundable

Now: \$10K, Seller must finance





Result: Club owner must come out of pocket to sell new memberships.

- Fear of liability/lawsuits
 - Almost inevitable these days
 - Failed promises
 - Demand for amenities
 - Demand for services





Solution

- Private club purchasers want to club to have gone through a “cleansing process.” This means the club/3P will have taken steps to eliminate or dramatically reduce the membership deposit refund obligation. How accomplish?
 - A. Chapter 11 Bankruptcy.
 - Plan of Reorganization/Sale
 - § 363 Sale
 - Chapter 7/Trustee’s Sale
 - B. Bank/Lender foreclosure.
 - C. Deed in lieu of foreclosure.



- D. Revise the membership program and eliminate the refund obligation entirely or establish a “mark to market” program.
- E. Equity Conversion.
- F. Defeasance – sharing of proceeds from future membership sales or establishment of a sinking fund.





Potential Club Purchasers

- Do not want to undertake the cleansing process themselves.
- Will pay more for a golf club that has gone through the cleansing process.

