

APPRAISAL INSTITUTE 2011 ANNUAL MEETING

KEY CHAPTER 11 BANKRUPTCY ISSUES FOR VALUATION CONSULTANTS

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Chapter 11 Case Study

- Two resort properties in California
- \$110mm in CMBS secured debt; \$20mm in subordinated debt; \$4mm in vendor debt
- Resort #1 as is value: \$25-35mm
- Resort #2 as is value: \$70-90mm
- EBITDA and debt service capacity of the resorts

Prebankruptcy Stage

- Loan defaults by borrowers
- Loan modification/forbearance negotiations
- Outcome – interim peace or global solution
- Role of financial consultant and/or appraiser

Initial Chapter 11 Stage

- Initial financial analysis
- Cash collateral and DIP loan process
- Adequate protection process and consultant's role
 - Assignment #1 - Prepare or verify property projections
 - Assignment #2 - Testify on value of lender's collateral
 - Assignment #3 - Testify on issues of adequate protection

Mid-Term Chapter 11 Stage

- Negotiations regarding a global solution
- Cash Collateral and DIP loan maintenance
- Stay relief – valuation litigation and consultant’s role
 - Proof: Equity in property and ability to formulate a facially confirmable plan
 - Assignment #1 – valuation based on debtor’s use of property
 - Assignment #2 – EBITDA and debt service capacity for restructured debt and business operations
 - Assignment #3 – adequate protection analysis

Final Chapter 11 Stage

- Global consensual solution and restructured/new debt structure OR
- Contested plan confirmation
- Proof: plan feasibility
 - Assignment #1 – cash flow and debt service capacity for restructured debt
 - Assignment #2 – term and interest rate for secured creditor cram down
 - Assignment #3 – sale or refinance exits at end of plan term
- Full Cram Down Plan
 - New value exception elements and consultant role
 - Key assignment – value of restructured equity and equivalence to new value contribution

CONCLUSION

- Wait Ten Years Or Less
- Do It All Over Again