Be brutally honest with your bank

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By Peter Nanula

I absorbed some really good advice this winter — a business mantra that I had seen deployed (and been party to) in other sectors, but not often enough in the golf arena. It goes something like this, "Banks never actually pay attention until you stop paying them."

My colleagues at Concert Golf Partners and I had the good fortune to work recently with a Board president whose day job is arranging debt financing for large commercial office buildings. His golf club had been struggling for 2 years with its bank over some crippling debt service. At issue was a $6 million loan, signed by a prior Board, to fund clubhouse renovations.

His club's situation is hardly uncommon. There are some 4,000 private clubs operating today in the U.S, 2,500 of which are structured along the private-equity model. Of those 2,500, industry observers estimate that fully 50 percent are holding dangerous levels of debt. Banks prefer to lend against hard assets they can sell, or against steady, demonstrable profit streams. In the current private club market, which in many areas is overbuilt (and where so many clubs cannot get on top of their debt burdens), banks are understandably wary of lending to a sector where steady profit streams are the exception, not the rule.

Banks recognize which way this wind is blowing. In an overcrowded private club market where so many clubs are carrying big debt, most lenders have simply abandoned this sector altogether.

However, banking institutions cannot abandon the golfing sector entirely — too many of them are holding notes on private equity clubs that, for a variety of reasons, cannot meet their debt obligations. Many clubs, as we know, have essentially become bank-owned.

In any case, this Board member with commercial debt-financing experience knew immediately that the financial dynamic — as it related to his club — needed to change. Instead of assessing the membership again (in an attempt to meet the debt service), and hoping for another loan extension or restructuring, he told the club controller to simply stop making the loan payments immediately.

This got the bank's immediate attention.

The loan officer — who had enjoyed years of golf at this club (and revised the club's loan several times) — was not the person who subsequently called for a meeting with the Board president. Instead it was a "special asset" colleague at the bank. This person had the experience to recognize that the club could not sustain its $500,000 in annual debt service payments, and that assessments were causing further member attrition. He also had the authority to write down the loan's value at the bank, and to renegotiate a discounted payoff by the club.

The club would never have gotten to this person — or achieved this solution — had it continued dutifully making payments (and tapping the membership to make them).

Let me be clear about my perspective here: We at Concert Golf Partners are owner-operators of private clubs. Because we specialize in identifying larger, equity private clubs that, for a variety of reasons, have been wrongly capitalized, we see variations on this theme all the time. Our goal is to find the right club, with the right financials, the right prospects for success. If it makes sense for all the parties involved, we recapitalize that club and retire the debt but maintain the club as fully private and make immediate capital improvements.

We're looking to grow, but we also recognize that this sort of recapitalization formula doesn't make sense for every club. By the same token, most every day we are interacting with debt-burdened clubs trying to find a way out of the debt spiral I describe above.

All these discussions, site visits and deep dives into club balance sheets have given me, and my colleagues at CGP, a pretty clear window on the perils of directing equity private clubs that have been wrongly capitalized.

But this strategy of non-payment was frankly a revelation to us. In a good way.

If your club finds itself in a similar situation (and there are thousands that fit this description), Boards are wise to appoint a small committee of financially sophisticated members to call a meeting with the bank. In this meeting, this committee should lay out the operating status of the club in more detail than quarterly financial statements typically reveal.

Boards are understandably wary of missing a payment and harming the club's reputation with the bank. Often, the bank has a corporate membership at the club, or has someone on the club's Board. It's possible the bank has made accommodations for the club during tough times. Missing a payment seems unthinkable.

All that said, if the club encounters difficulty in securing a meeting with someone from the special asset or "workout" division, a stoppage in payments will get you that meeting.

The bank's special asset team needs to see the number of members the club has maintained over time, and the trends in total dues income. The bank needs to see the true operating deficits being supported by a shrinking number of members.

It is particularly useful to show the bank when the last assessment was imposed, and how many members left the club shortly thereafter. Clubs often don't seem to understand, and banks often have even less insight, into this critical fact of club life: In a market as competitive as today's, assessments are virtually guaranteed to result in member attrition.

Once the "workout people" or special asset folks at the bank get involved — and truly divine the underlying financial operations of the club in detail — the club is on its way to resolving its debt situation. Hiding the truth from the bank just means the problem will be even larger when the bank finally wakes up. By that time, many potential solutions will be out of the Board's control.

*Peter J. Nanula is chairman of Concert Golf Partners (www.concertgolfpartners.com), an owner, operator and all-cash buyer of private golf and country clubs. He is speaking the **Golf Inc. Strategies Summit** on Strategic Planning for the Private Club.*

Concert Golf specializes in recapitalizing member-owned clubs carrying too much debt, converting them to non-equity status, and maintaining the clubs as fully private. Nanula is the former CEO of Arnold Palmer Golf Management.