HOTEL FORECLOSURES TEACH HARD LESSONS

Continued operation helps maintain value

Security First Federal knows about hotels. It's had to learn about them — the hard way.

To prevent losses on a foreclosed hotel a few years ago, the $1.1 billion Daytona Beach, Fla., savings institution put one of its employees in the hotel to monitor cash flow as Security kept the operation going until a new mortgagor could be found.

Recently, it has had a happier experience, says Linda Alexon, vice president and manager for commercial real estate servicing. She has a downpayment on a cash purchase that will give Security a profit on another foreclosed hotel.

In the recent deal, the underlying land value offset a potential loss on the business. Some 90% of the ocean-front property's value is in the land, enabling Alexon to hold to her price, even though the hotel is closed and is in need of "major rehabilitation."

However, the earlier case reflects more common problems in working out real estate owned hotel/motel properties.

More than 300 institutions, many now taken over by the Resolution Trust Corporation, owned hotel, motel or resort properties in late 1989, according to *Savings Institutions'* 1988-1989 purchasing study.

But few institutions can afford to put an employee in a hotel or prevent losses as did the Florida institution.

APPRAISED LIKE BUSINESSES

Experts concur that hotels should be appraised and financed like businesses. Operations and management are an integral part of their value, and institutions that own them are advised to keep the operations going — if possible.

An empty office building is still an office building; an empty warehouse is still a warehouse. The same cannot be said so readily for an empty hotel.

"To manage a hotel property, you have to manage the hotel business," says Sam Pincich, a specialist on income-producing properties at the U.S. League of Savings Institutions. "It's analogous to trying to run every business in your office building."

If a savings institution is forced to take over a hotel, managers should resist any impulse to get the operator out and dump the property quickly for whatever it can get, says Andrew Garr, chief executive officer of New York City-based Millennium III, which manages income-producing properties.

Garr advises institutions to determine quickly if the operators are honest and really know the business.

"If they pass those two tests, you'd better stay with them," Garr says. "They're probably best for the property, even if you don't get control of the property.

"As long as an operator turns over cash flow every month, should an in-

CLEARINGHOUSE

Auto delinquencies. **Auto loan delinquencies at consumer financial institutions remained stable in 1989, according to preliminary findings of the 1990 Consumer Bankers Association auto finance study.**

At the end of 1989, total auto loan delinquencies were 2.18% of loans outstanding, compared to 2.20% at the end of 1988, according to Dr. Tim Hinkin of the McIntire School of Commerce at the University of Virginia, who did the study. Actual losses were down slightly from 1988, falling to 0.79% from 0.94%

Faster payment. **Creditors can receive consumer payments of delinquent debts in 15 minutes under a new money transfer service offered by Western Union Financial Services, Inc.**

"Quick Collect" check printers installed in creditors' offices can cut a Western Union-guaranteed check almost immediately after a payment is made anywhere in the country. The debtor pays a flat fee of $8.50 for the transaction, which is less than the cost of overnight delivery services or emergency cash transfers.

ACH action. **Nearly all savings institutions are members of an automated clearinghouse, judging from membership figures from the National Automated Clearing House Association.**

Sandy Kennedy, senior director for member services and administration for Nacha, reports that data from 48 states (no results were reported for Georgia and Kentucky) indicate that 2,096 savings associations were ACH members in 1989, the first year that membership was reported by type of institution.

Perhaps only one in five savings institutions belonged to ACHs in the mid-1970s, estimates O. Tom Thomas, vice president for operations at the U.S. League of Savings Institutions.

ACH membership increased with the advent of checking accounts at savings institutions and the U.S. government decision to offer direct deposit of Social Security checks, Thomas says.

Primarily because of preauthorized debits for mortgage payments, Virginia ACH Executive Director Norm Robinson finds more savings institutions originating ACH transactions than commercial banks, although the latter accounts for a far greater volume of transactions.

Is popcorn next? **Los Angeles-based American Multi-Cinema Theaters has developed a new use for automatic teller machines — dispensing movie tickets.**

Since late last year, moviegoers at some of the chain's theaters have been able to use their ATM cards to call up a menu of movies, show times and prices.

stitution work with him? Sure it should." Uninterrupted occupancy may be the difference between eventually selling a functioning operation and "bulldozing the building," he says.

NO ESCAPING TOUGH LESSONS

Of course, says Garr, "Very often, the decision is simple. You've got to dump it because the Federal Deposit Insurance Corporation is making you dump it."

But an institution cannot avoid the lessons of hotel lending even when seeking to dump at a loss.

"You can plan to sell immediately for what you can get, but don't expect cash," says Morris Lassky, whose firm, Lodgings Unlimited of West Chester, Pa., specializes in turning around poorly performing hotel/motel properties.

"The skill in selling is almost as important as the skill you should have had in making the loan in the first place," says Lassky, who finds institutions having to retake control of hotels after poorly managed purchases fell through.

According to Lassky, an institution may be approached by a potential buyer who wants his investment in renovation to be considered as equity — in effect, a downpayment — in exchange for taking over the previously foreclosed mortgage.

"If the lender is smart, he'll probably accept that as reality," says Lassky.

Even Alexon at Security, who cautions against committing money to hotels, says she would consider such an offer — provided she could control the money.

"[A buyer] would have to give it to us as a deposit, and we'd disburse the money as a construction account," she says. Alexon adds that she would direct the investment toward physical improvements and limit funds for staff development.

"Any problem hotel property you run into probably has deferred maintenance," says Ron Timms, senior vice president for lending and real estate investment at Columbia Banking Federal Savings and Loan in Rochester, N.Y. "You've got to get it back to some shape...and if somebody is willing to put money into a deal, you ought to talk to him."

But he adds that the institution must balance its likely return against its desire to get the bad asset off the books as quickly as possible.

"You might have to bite the bullet and let him count the first year's interest as principal," he says. "The trick is to get to the 10% [and conclude the sale]."

REGULATORY PROSPECTS

Will regulators accept such deals "as reality," to use Lassky's words, now that the RTC itself is holding hotel properties?

"Logic would dictate that they will, but this is the federal government," says Garr.

Pincich holds out little hope for regulatory indulgence. "The people who examine institutions aren't from the RTC. They don't even talk to each other."

RTC spokesman Stephen Katsanos says the agency has allowed additional investment in the operations of income-producing properties it holds. But he adds that regulators may not be able to allow the same for solvent but struggling institutions.

"We're looking at a much more limited objective," he says. "Will an investment in an asset add to the marketability of an asset?

"[The regulators'] concern is primarily with the safety and soundness of an institution. Will the investment make any difference in the solvency of an institution in a reasonable time?"

While Security First Federal had the resources and the will to put a person in a hotel to watch the cash, Pincich says hotel operations are fraught with possibilities for theft and waste.

"From pouring drinks to taking towels, it's a messy business," he says.

Edited by Joseph Harrington

TRADING POST

Savings institutions wishing to buy, sell or swap used equipment are invited to submit copy for a free listing.

FOR SALE: Five new Taltek dial terminals for Visa/MasterCard authorizations and several used terminals; 14 new Bartizan imprinters (unopened): $25; and several used imprinters. *Cheryl Johnson, First Federal, P.O. Box 791, Beresford, SD 57004; 605-763-2135.*

WANTED: Burroughs AP-380 passbook printer. *Joyce Little, Glen Burnie Mutual Savings Bank, P.O. Box 339, Glen Burnie, MD 21061; 301-766-4656.*

FOR SALE: Unisys equipment: One 130MB dual disk drive (model B-9484-5); eight B206 disks; one 80KB BTU and 1x4 mec with 1600bpi tape drive (model B-9495-45); one 15 KVA modular power regulator (model Mr-15). Maintained by Unisys. Make an offer. *Debbie Bell, Ameriana Savings Bank, 2118 Bundy Ave., New Castle, IN 47362; 317-521-7520.*

FOR SALE: Wang VS 45 with Phoenix drive and 147MB drive in a cabinet, three 5577 printers with two sheet feeders, 10 Wang PC Classics, four Diablo 630 serial printers and two Diablo 620 serial printers. *Eddy Lohn, Pioneer Bank, 4111 200th St., S.W., Lynnwood, WA 98036; 206-771-2525.*

FOR SALE: Bell & Howell loan document microfilming equipment, including ABR system 100, ABR 504-505 microfiche jacket printer and ABR 400. All necessary equipment included. Excellent condition; no reasonable offer refused. *Raymond Lipman, West Bend Savings, P.O. Box 437, West Bend, WI 53095; 414-334-5563.*

FOR SALE: NCR model 5068 PC terminals, six new account stations, five dual teller stations and one single-teller station. All related equipment included. *Jay Kettering, Provident Bank of Maryland, 7210 Ambassador Dr., Baltimore, MD 21201; 301-281-7000.*

Edited by Hilda R. Russell