

Timothy Little and Peter Sugden Talk about Lender Communication Strategies During COVID-19 Pandemic

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London Real Estate managing partner Peter Sugden and New York Real Estate partner Timothy Little spoke to John Healy, Vice president of Hotel Solutions Partnership, in a Xenia Radio interview about lender communication strategies during the COVID-19 pandemic.

During the interview, Peter and Timothy discussed lender negotiations, valuation changes, use of restricted sources of cash and the potential challenges and opportunities in lender communication strategies over the next six to twelve months.

“You're seeing, really, two themes. The first is lenders are allowing their borrowers to access reserves, particularly FF&E reserves to pay operating costs. And second, what you're really seeing are deferrals. We're going to let you defer debt service payments for 6 months and either pay them on the back end or pay them over some period of time, commencing on a date when people think things will be better, and I think a lot of that is coming from guidance the regulators are giving. They're sending strong signals out to the lenders that we're not going to punish you if you work with your borrowers in this way,” Timothy explained.

When asked what lessons from the 2008 recession could be applicable to the COVID-19 pandemic today, Peter said that, on the individual loan level, there are less similarities due to the fact that the recession in 2008 was a banking crisis, whereas the COVID-19 pandemic is a cash flow crisis.

“What's happening now is more supportive to borrowers to try and help them get through in the greater national interest, and perhaps on the other side if this, to allow greater protection from distressed situations, which provide opportunity for private equity,” Peter said. Timothy added that communicating with lenders and special servicers is easier today than it was during the 2008 recession.

On whether material adverse change clauses and other loan covenants are being enforced during the pandemic, Timothy and Peter said that covenants are not being enforced because there are questions around at what point, and to what end, can such clauses be enforced.

As to the challenges ahead, Peter and Timothy said there are questions related to when cash flow will return, if refinancing risk will be available, whether lenders will become more aggressive, where working capital will come from to restart hotel operations, and to what extent will there be permanent or long-term changes in travel or hotel use and how will that impact value.

Click here to watch the interview on Xenia Radio.

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