Key to Evaluating Alternatives: Butler's Matrix

The Comprehensive Situation Analysis should have considered all the relevant factors concerning the borrower, the hotel and their related considerations. Now it is time to consider these in light of the lender's goals and the available alternatives. Given the complexities of the typical Special Asset, it is sometimes helpful to boil it down to a summary form that may over-simplify, but at least provides a grid or framework for analysis.

Jim Butler, Chairman of the Global Hospitality Group® of Jeffer Mangels Butler & Mitchell LLP developed an analytical tool in the real estate and hotel downturn in the late 1980s. It has come to be known as "Butler's Matrix" and is set forth below:

Butler's Matrix
Analytics Tool for Choosing Lender Alternatives with
Trouble Hotel Mortgage Loan Workouts and Defaults

Criteria Borrower or Collateral Criteria	**Evaluation** in this column suggests leaving borrower in possession: **Workout, Loan Sale, or Do Nothing**	**Evaluation** in this column suggests removing borrower from possession **Receiver, Deed-in-Lieu, Foreclosure, or Bankruptcy Trustee**
Collateral	Limited or Problematic	Full or Satisfactory
Documentation	Problematic	Full or Satisfactory
Borrower • Integrity • Financial Strength • Managerial strength	 • High • Strong • Strong	 • Questionable • Weak • Weak
Management (hotel operational)	Strong	Weak
Marketing	Focused	Diffuse
Franchise or brand affiliation	Correct	Wrong image
Asset • Design • Physical Condition	 • Good for market • Well maintained	 • Poor • Deferred
Market	Weak	Strong

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In applying Butler's Matrix, no single factor or group of factors is necessarily determinative although a single factor could be. The lack of a critical mass of motivations on one side or the other will normally suggest that the lender will want to take possession by foreclosure or deed-in-lieu of foreclosure or at least displace the borrower from possession through use of a receiver.

For example, in the absence of other controlling considerations, inadequate collateral value for the debt, defective documentation, a good borrower, a strong management company and weak market would all suggest a workout instead of the possessory alternatives. However, if the property is severely damaged by a hurricane or other disaster, that factor alone might outweigh all the others and swing the evaluation in favor of one of the other "possessory" alternatives.

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How the SAG is run can make a critical difference. Utilizing the SAG as a profit center can make a difference in amounts recovered and how the bank is protected from lender liability claims. The bank can position itself to make a bigger impact on its profitability, more so than the commercial loan originations. In recognition of that, senior management should be given prompt access to decision-makers and other resources, including hotel lawyers and consultants.

How We Can Help

Whether the asset is real estate or an operating business – or both – it's likely we have dealt with the kinds of issues you are facing. Our team has vast experience in helping creditors with commercial loan restructuring, collateral enforcement, collection, bankruptcy and insolvency issues, and have also worked with borrowers navigating the same situations. Contact us to find out how we can help you.

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