TAMARACK
LOAN: $250 MILLION
DEFAULTED
'It looked like a dream,'
the developer says.
Credit Suisse’s real estate bankers made $3.4 billion in loans to eight high-end projects from 2005 to ’07. All are in bankruptcy or default.

By ANTHONY EFFINGER and DANIEL TAUB

Photograph by GLENN OAKLEY

To JEAN-PIERRE Boespflug, French-born developer of a ski resort in the Idaho outback, the $250 million loan from Credit Suisse Group AG was too good to pass up.

Dealmakers from the Swiss bank’s Los Angeles office arrived to pitch Boespflug on the unorthodox loan in 2006, just when his Tamarack Resort was lining up financing for its base village beneath newly cut ski trails.

Unlike regular construction loans, which doled out enough money to complete one project at a time, this one would let him build several clusters of homes and condominiums at the resort.
simultaneously. The loan would cover just a portion of the development cost. The idea was that proceeds from selling units in one building would be used to finish the next, and so on. As long as the homes and condos sold, Boespflug would be fine. “It was like putting candy in front of a 4-year-old,” Boespflug, 54, says. “It looked like a dream.”

Boespflug signed the documents in May 2006. Credit Suisse collected its fee and sold the loan to a syndicate of investors it had lined up. Mutual funds run by Morgan Stanley’s Van Kampen Funds Inc. unit bought the loan when it was made, or shortly after, according to regulatory filings. Then the real estate market went south, and sales at Tamarack slowed. In December 2007, just 19 months after taking the Credit Suisse loan, Boespflug missed a $5 million payment.

Tamarack is one of at least eight high-end projects in the U.S. West, Florida and the Caribbean financed by Zurich-based Credit Suisse that are either in default or in bankruptcy. Those failures reverberate in the financial system because Credit Suisse sold the loans to investors who, in turn, put them into mutual funds or packaged them into securities called collateralized-loan obligations.

CLOs are similar to the collateralized-debt obligations that banks crafted out of subprime residential mortgages: bundled securities that are divided into tranches, each of which has a different credit rating and interest rate. Both paid interest that often exceeded that of conventional bonds. Both were popular when real estate was hot, and both are hurting now as the loans inside them go bad.

Many banks matched borrowers with eager investors during the real estate boom. Credit Suisse, Switzerland’s second-largest bank, was unusual in that it made big loans—$250 million–$675 million each—and because it almost cornered the market on syndicated loans to posh developments such as Tamarack, says Joseph Snider, senior credit officer at Moody’s Investors Service, which rated the projects for a fee so that Credit Suisse could sell the debt.

Many of the loans, which earned the bank millions of dollars in fees, were made out of Credit Suisse’s Los Angeles office and were then sold to investors by a group of Credit Suisse bankers in New York. The Swiss bank has had extensive operations in the U.S. ever since it acquired a majority stake in New York–based investment bank First Boston in 1990. It then bought investment bank Donaldson Lufkin & Jenrette Inc. for $13.4 billion in 2000.

In February, Credit Suisse reported a record loss for 2008 of 8.2 billion Swiss francs ($7 billion), in part because of its exposure to toxic U.S. real estate–related debt.

In its quest to loan money to the ski and golf resort operators, the bank was unusually aggressive. “Usually, bankers don’t come to you; you go to them,” says Boespflug, a former executive at computer networking company Cisco Systems Inc. who taught skiing at Lake Tahoe on weekends when he worked at technology companies in the San Francisco Bay Area. “They came to us with a very fancy PowerPoint presentation.”
of pricey furniture and baubles, including two winged griffins, sculpted from marble, that Yellowstone bought for $19,250.

Some of the developments were in remote locations and thus were likely to attract only the most adventurous condo buyers. Tamarack is 100 miles (160 kilometers) north of Boise, up a two-lane road, and has no commercial air service.

Even so, Credit Suisse had no trouble finding buyers for the loans. The Tamarack and Yellowstone loans were fully subscribed, meaning that Credit Suisse found investors for all of the debt.

Credit Suisse’s Los Angeles office is located in Fox Plaza, a 34-story tower recognizable to film buffs around the world as Nakatomi Plaza, the fictional high-rise taken over by terrorists in the 1988 Bruce Willis movie Die Hard.

Until late 2005, the point man on many of the loans was Jeff Barcy, now 39, who has both a bachelor’s degree and a Master of Business Administration from Harvard University. He’s listed as the first investment banking contact in the “pitch book” sent to potential investors in the Yellowstone Club loan.

Barcy appears to have been well paid for his work. He left Credit Suisse in late 2005 to become chief executive officer of Hearthstone Inc., a real estate investment firm in San Rafael, near San Francisco. When he moved north, he bought a house in nearby Tiburon for $3.3 million, according to property records.

Barcy listed the projects he financed at Credit Suisse on a biography that appears on Hearthstone’s Web site: the Yellowstone Club, Lake Las Vegas, Promontory and Turtle Bay Resort. Barcy, who left Hearthstone in October 2007, didn’t answer e-mails or return phone calls to his home.

Boespflug says the Credit Suisse lead banker when he took his Tamarack loan was Arik Prawer, who is now a Credit Suisse managing director. “These were young technocrats,” Boespflug says. “The bosses were not there. They were not at the table.”

Prawer didn’t return phone calls and e-mails seeking comment. Credit Suisse spokesman Duncan King says Prawer and others who worked on the loans declined to comment.

Boespflug says Prawer and his colleagues solved a persistent problem in the development business: having to start the borrowing process all over each time you want to erect another building.

The hitch in the Credit Suisse loan was that it didn’t include enough money to finish the project, forcing the borrower to pay for much of the development with proceeds from unit sales. If sales slowed, which seemed a remote possibility in 2006, Tamarack wouldn’t have the money it needed to finish the buildings.

The other hitch was that because of the revolving feature of the loans, they
required a huge pile of difficult-to-comprehend spreadsheets and terms. “They had the best of intentions, but they created a monster,” Boespflug says. “Nobody could see the consequences of a 2-foot-thick pile of documents.”

Today, the consequences are clear: Tamarack is being run by a receiver who stepped in after Boespflug and his co-owner, a Mexican industrialist named Alfredo Miguel Afif, defaulted. Six buildings in the base village are incomplete, as are a cluster of townhomes. They’ve all been sealed from the elements and sit waiting for new financing.

All of the resort projects that Barcy lists in his bio are hurting, and all fell apart after the credit markets started to freeze up in mid-2007. Lake Las Vegas borrowed $540 million in June 2007 to refinance an earlier, $570 million Credit Suisse loan and went bankrupt in July 2008. The Yellowstone Club borrowed $375 million in September 2005 and declared bankruptcy in November 2008.

Promontory took $275 million from Credit Suisse lenders in 2005 and was forced into bankruptcy by its creditors in March 2008. Turtle Bay, owned by Los Angeles–based Oaktree Capital Management through an affiliate called Kuilima Resort Co., borrowed $400 million in September 2005 and went into default in December 2007.

Barcy’s resort projects have another feature in common: In each of them, Credit Suisse allowed the developers to give themselves millions of dollars as distributions or loans, according to Snider at Moody’s. Some of those distributions went to people with spotty credit histories. Tim Blixseth and his wife, Edra, the founders of the Yellowstone Club, declared bankruptcy in Oregon in 1986 when Tim’s timber business faltered. The trustee in charge of that bankruptcy, Eric Roost, sued, saying they failed to report all of their assets.

Even so, Credit Suisse not only gave the Blixseths a $375 million loan; it also allowed them to take $209 million of the money “for purposes unrelated” to the Yellowstone development, according to Credit Suisse’s agreement with the club.

**Some of the Credit Suisse loans went to people with spotty credit histories. Both the Blixseths of Yellowstone and Bobby Ginn of Ginn Resorts had gone bankrupt in the 1980s.**
Cyclist Greg LeMond, an early member of the club and an investor there, says Blixseth and his wife used most of the money to buy houses and cars and failed to share the distribution with other investors, LeMond included. LeMond sued in 2006, and Edra Blixseth settled the case when she took ownership of the club last August after a litigious divorce from Tim. The club still owes LeMond $13.5 million of the $39.5 million settlement, according to a filing by LeMond in Montana state court in Virginia City.

The generous distributions didn’t matter to investors who bought the Credit Suisse loans because real estate prices were going up, and as long as they did, there would be enough collateral to back up the loans, Snider says. “Real estate was going through the roof, and people were looking for yield,” he says. “And this was good yield.”

The Tamarack loan, maturing in 2011, had a coupon of 8 percent, according to the annual report for the Van Kampen Dynamic Credit Opportunities Fund, which owned it as of July 31.

Some investors milked that yield by blending the loans into CLOs, which are divvied up into tranches. The riskier tranches carried higher interest rates.

Aladdin Capital Management LLC, in Stamford, Connecticut, for one, folded its Yellowstone debt into a series of CLOs and sold them to investors. Aladdin and other firms collected fees for managing the CLOs and often kept a stake in them, hoping to profit as interest from the loans poured into the pool.

Sandelman Realty CRE CDO I, a collateralized-debt obligation put together by New York hedge fund Sandelman Partners L.P., had its credit rating cut by Fitch Ratings Ltd. in January, in part because it owned some of the Yellowstone Club loan.

Some buyers came back again and again. The Van Kampen Senior Loan Fund is one of at least four funds at New York–based Morgan Stanley that own loans arranged by Credit Suisse. As of July 31, the end of its fiscal year, the Senior Loan Fund held a Ginn loan with a principal amount of $13.9 million and a value of $5.24 million and Lake Las Vegas loans with principal amounts of $5.16 million (written down to $1.03 million), $1 million (unchanged) and $602,000 (written down to $120,370). The fund also held a Tamarack loan with a $3.96 million principal amount and a value of $2.62 million; a Yellowstone loan with a $6.15 million principal amount, cut to $5.21 million; and a Kuilima/Turtle Bay loan for $4.49 million, valued at $542,624. Since the Senior Loan Fund’s July annual report, Ginn and the Yellowstone Club have gone bankrupt, further reducing the value of the loans. Tamarack is being run by a receiver, and Turtle Bay is under the control of a foreclosure administrator.

Spokeswoman Erica Platt said Van Kampen had $109 million of debt from Credit Suisse’s resort projects in the three funds, representing just 2 percent of the three funds’ $5.2 billion of investments as of Jan. 30.

The Van Kampen Senior Loan Fund fell 49 percent in 2008, including reinvested dividends.

As of Sept. 30, the Morgan Stanley Prime Income Trust owned loans to Ginn Resorts, Kuilima/Turtle Bay, Tamarack and Yellowstone. It fell 35.1 percent in 2008, including reinvested dividends.

Invesco Ltd.’s AIM Floating Rate Fund was another repeat customer. It owned loans to Ginn, Lake Las Vegas and the Yellowstone Club as of Aug. 31, according to regulatory filings. BlackRock Inc.’s Debt Strategies Fund owned a piece of the Yellowstone loan as of the same date.

One buyer of the Yellowstone Club debt who spoke on condition that he not be named says there’s nothing sinister about the Credit Suisse deals. The whole real estate market is in trouble, he says, and fledgling developments like Tamarack need constant real estate sales because they don’t generate enough cash to survive without them. “It has nothing to do with there being something flawed about Tamarack or something wrong with the Yellowstone Club,” the buyer says. “Everything was overheated. There was too much debt on everything.”

The Credit Suisse loan machine didn’t neglect urban luxury real estate. In April
Buyer Beware
These mutual funds bought resort loans arranged by Credit Suisse that are now in default, foreclosure or bankruptcy.

<table>
<thead>
<tr>
<th>FUND</th>
<th>TOTAL CREDIT SUISSE RESORT DEBT, IN MILLIONS</th>
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<tr>
<td>Van Kampen Senior Income Trust (VVR)</td>
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<tr>
<td>Van Kampen Dynamic Credit Opportunities Fund (VTA)</td>
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<tr>
<td>AIM Floating Rate Fund (AFRAX)</td>
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<td>BlackRock Debt Strategies Fund (DSU)</td>
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<tr>
<td>SunAmerica Senior Floating Rate Fund (SASF X)</td>
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Figures are for the end of the 2008 fiscal year for each fund. Source: Annual reports

In 2007, the bank arranged a $365 million loan to CPC Group Ltd. to buy 8 acres of land on Wilshire Boulevard in the opulent heart of Beverly Hills, California. CPC was founded by Christian Candy, who along with his brother, Nick, develops luxury properties as Candy & Candy Ltd. They planned to build a hotel, condominiums and stores on the site.

The price was the highest ever paid in North America for a development site where zoning variances were still being sought, according to the seller, closely held New Pacific Realty Corp. in Beverly Hills. A notice of default was filed with the Los Angeles County Registrar’s office in October, just 18 months after Credit Suisse arranged the loan.

Another project that went into default before a brick was laid was a hotel resort in Las Vegas with an Elvis Presley theme. In July 2007, Credit Suisse arranged $475 million in loans for FX Real Estate & Entertainment Inc. to refinance the 18-acre piece of property. In November, FX said it was in default because the value of the land had dropped so much that it violated the covenants of the loan. FX founder Robert Sillerman owns rights to images of Presley and boxer Muhammad Ali.

Among the biggest of the Credit Suisse-backed projects is Lake Las Vegas, an Italian-themed resort 20 miles east of Las Vegas in Henderson. The development surrounds a private lake and boasts a palm-fringed golf course designed by Jack Nicklaus. There’s a Tuscan-themed Ritz-Carlton hotel there, complete with a replica of the Ponte Vecchio bridge in Florence.

The resort has been in the planning stages for four decades. In the 1960s, an actor named J. Carlton Adair bought the land and tried to build “Lake Adair.” He went bankrupt in 1972, according to the New York Times. Several more developers gave it a try during the next two decades. A builder named Transcontinental Corp., backed by billionaires Sid and Lee Bass, bought the property in 1990. Transcontinental built three golf courses, a Ritz-Carlton hotel and hundreds of houses.

Transcontinental borrowed $570 million through Credit Suisse in May 2005 to expand the resort and then refinanced that loan with another for $540 million two years later, in June ’07. The good times were still rolling then. One of the largest homes at Lake Las Vegas, a 20,000-square-foot (1,858-square-meter) villa with 9 bedrooms, 15 bathrooms and 2 elevators sold for $10 million in February ’07, according to Clark County property records.

Then the Nevada real estate market collapsed. Sales at Lake Las Vegas slowed. Banks foreclosed. One house, a three-bedroom on Via Salerno with views of the golf course, sold for $820,000 in June 2005, a month after Credit Suisse made its first loan. The same house is now being offered by a bank for $348,900, according to the listing agent.

Atalon Group, a company led by Frederick Chin that specializes in financial turnarounds, took over development of Lake Las Vegas after Transcontinental defaulted.

Credit Suisse’s boldest move may have been convincing investors to take a chance on Edward Robert “Bobby” Ginn III. In the 1980s, Ginn took control of Hilton Head Co. and Sea Pines Co., the original developers of Hilton Head and the largest owners of undeveloped land on the island, a resort and retirement community off the coast of Ginn’s native South Carolina.

The company Ginn put together, Hilton Head Holdings, racked up debt in the course of construction and then struggled as the economy soured and the savings-and-loan crisis hobbled his lenders, Southern Floridabanc SA and Intercapital Savings, according to the book Profits and Politics in Paradise (University of South Carolina Press, 1995) by Michael N. Danielson. Both got into commercial lending after Congress deregulated their industry.

Hilton Head Holdings filed for bankruptcy protection in 1986, as did Ginn himself in ’88. The Federal Deposit Insurance Corp. sued Ginn that same year, alleging that he’d repeatedly borrowed money from small banks, often with help from corrupt bankers and then funneled it to himself and others with no intention of paying off the loans.

In one instance, Ginn’s La Coquille Investment Co. borrowed $25 million for a project in Palm Beach, Florida, the FDIC said in a complaint filed in South Carolina Bankruptcy Court. “Defendant Ginn did not reasonably anticipate that the project could be developed to pay off even a substantial portion of the indebtedness,” it said. In addition to cash, Ginn and others took silverware, wine and...
other property from La Coquille, the FDIC said.

Ginn denied the allegations in an answer to the FDIC’s complaint. Ginn spokesman Ryan Julison declined to comment on either Ginn’s Hilton Head or more recent projects.

“He was hated on Hilton Head. He was despised on Hilton Head,” says Robert F. Anderson, a Columbia, South Carolina, attorney who was the trustee on the Hilton Head bankruptcy. A common bumper sticker on Hilton Head Island back then read “Honk if Bobby Owes You.” Anderson remembers Ginn as “very charming” and an “excellent salesman” whose “failures were tied directly to the collapse of the S&Ls and banks” in the ‘80s.

Anderson says Ginn, now 60, rebounded from the Hilton Head collapse. He says he wasn’t surprised Credit Suisse took a chance on him even with his past high-profile failure. “Isn’t that the whole American idea?” he says. “You stick your neck out, you get it whacked off and then you turn around and try right again.”

Ginn started his new company, based in Celebration, in 1998. Credit Suisse arranged a total of $675 million in loans to Ginn in 2006, according to credit rating company Standard & Poor’s. He and his partners planned to take a $333 million distribution, also known as a return of capital, according to Snider.

According to S&P, Ginn used the remainder to develop five properties: Tesoro, a gated community in Port St. Lucie, Florida, with two golf courses, one of which was designed by Arnold Palmer; Quail West in Naples, Florida; Hammock Beach River Club in Palm Coast, Florida; Laurelmor, a community under development in Boone, North Carolina; and Ginn sur Mer, a resort on Grand Bahama Island, the Bahamas.

Ginn’s timing was as bad this time as it was in the 1980s. The company missed principal and interest payments due on June 30, 2008, according to S&P. Several of its affiliates filed for Chapter 7 bankruptcy protection—that is, liquidation—in West Palm Beach, Florida, in December. Sales at the developments “have been severely affected by ongoing economic pressures and the drastic downturn in the real estate market,” Ginn said in a court filing.

“As far as I know, it’s all market driven,” says Drew M. Dillworth, the Miami-based trustee assigned to sell off Tesoro and Quail West. “What you’re reading about South Florida is very true. Our market is just unbelievable.”

Credit Suisse has deployed lawyers in bankruptcy courts across the country, trying to recover money for investors who bought its loans. Any money investors made is being eaten up by fees paid to

**PROMONTORY**

**LOAN: $275 MILLION**

**BANKRUPT**

The high-end Utah ski destination is still operating.

**Buyers of debt from the Credit Suisse resort loans include Morgan Stanley’s Van Kampen funds, Babson Capital and the Bill & Melinda Gates Foundation.**
Boespflug and Afif of Tamarack didn’t distribute any money out of their Credit Suisse loan, according to Snider. Boespflug says all he wanted to do was build his resort, quickly. Credit Suisse obliged.

Boespflug blames himself for the fiasco. “I could have said no to the loan,” he says. “It looked so good, though.”

Real estate and anything associated with it looked good to just about everyone in 2006. Credit Suisse earned fees making loans, investors earned high yields on the CLOs and project developers got financing. Some, like Blixseth and Ginn, even got cash back. Now, the only profits from Credit Suisse’s more than $3 billion in resort loans are going to bankruptcy lawyers.

You can use the Underwriter Rankings (LEAG) function to track U.S. loans arranged by Credit Suisse Group AG during the height of the real estate boom earlier this decade. Type LEAG <Go> and click on the Select a Market button. Select Syndicated Loans and click on U.S. Leveraged Loans and then on the box to the left of Custom Date. Enter 01/01/05 in the first date field and 12/31/07 in the second and press <Go>. The results show that Credit Suisse was the fifth-ranked arranger of U.S. leveraged loans during the period.

Click on Credit Suisse and select Securities in the menu that appears to view details of the U.S. leveraged loans arranged by Credit Suisse. Use the scroll bar in the lower-right corner of the screen to find the loan facility for Tamarack Resort LLC, as shown at right. Click on the name and select DES in the menu that appears. Details of the Tamarack loan facility will appear on a different screen. Click on either item under Type for further loan terms, if available.

To view a list of dollar-denominated term loans that have defaulted, type TERM LOAN <Corp> <Go>. Click on the arrow below and to the right of Curr and select USD. Then click on the arrow below and to the right of Status and select Defaulted. Enter YELLOWSTONE in the field to the right of the LOAN field and press <Go> to find the defaulted loan for the Yellowstone Club. Click on the loan and type 1 <Go> to view further details.

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