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Legend Homes strikes deal to start building again

The company works out an agreement with its lenders in bankruptcy court

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Legend Homes, which faced a potential death sentence in bankruptcy court, has struck agreements with its lenders to build for another day.

President Jim Chapman said settlements mediated by the bankruptcy court allow Legend and its parent, Tigard-based Matrix Development, to survive one of the largest homebuilder bankruptcies in Oregon history. The agreements last until March 31, when Legend is scheduled to file a longer-term plan to get out of bankruptcy.

On Monday the company will put masons, framers and drywall hangers back to work at four subdivisions in Tigard, Hillsboro and Corvallis. It's the first time Legend will start a new home since its Chapter 11 filing in June.

Despite continued slow sales, company executives say they need to keep building to meet the mild demand and generate revenue to keep their doors open. If their plan works, Legend executives expect that they can return more money to their lenders by building than if the banks auctioned off the land.

"This is a big breakthrough," said Clyde Hamstreet, a Portland business consultant who's advising Legend Homes.

When his company filed bankruptcy, Chief Executive Officer David Oringdulph blamed ill-timed land purchases in Southern California, Bend and Vancouver. Oringdulph pledged to restructure and re-emerge to continue building homes as he has done since 1966.

But the bankruptcy had frozen Legend's cash in court-monitored accounts, and banks wouldn't lend any more given the risks of still declining real estate values.

The cash freeze left Legend teetering.

Some lenders pressed for Legend to liquidate to raise as much cash as possible to pay off bank debts. Banks such as Cleveland-based KeyCorp, Legend's largest lender, are aggressively working to reduce their poor performing real estate loans. "There were no punches pulled about that with some of these national banks," Hamstreet said.

Legend's bank debts total \$180 million, Chapman said. The company also owes subcontractors and suppliers about \$1.5 million.

Since it filed for bankruptcy, Legend had sold about 30 homes, generating about \$7.5 million in revenues.

While the banks wanted to capture all of those sales proceeds, Legend asked the bankruptcy judge to let it use the money for new home construction.

U.S. Bankruptcy Judge Elizabeth Perris mediated talks between Legend's lawyers and lawyers for lenders KeyBank, Bank of America, JP Morgan Chase Bank and Columbia River Bank. Legend reached settlements with those banks this week on five projects.

Instead of a lump sum payment now, the banks will collect debt payments with each future home sale and free up some revenue for Legend's overhead and future home building expenses.

"We now know we're going to survive," Chapman said.

Since 2000, Legend has been the sixth-largest homebuilder in the Portland-Salem area. But the builder has taken out just 21 single-family home permits so far this year, an 83 percent decline from the same period a year ago, according to the Construction Monitor, a trade publication.

The deal should free up enough money for Legend to have about 40 homes under construction at any given time, Hamstreet said.

In the meantime, Legend hopes to start new homes soon on its five additional subdivisions still under construction. Its lawyers are in talks with lenders M&T Bank, First Independent Bank, Wachovia and Columbia River.

Legend may be back to work, but falling land values continue to bite its parent company, Matrix Development.

Key Bank has started to foreclose on a property Matrix Development purchased in Riverside, Calif., as part of a massive Winchester Ranch development. It's the only Matrix property that's fallen into foreclosure, Chapman said.

The company is working to reduce its land holdings and Chapman expects to lose more land through foreclosures. At one point, the company had enough land to serve 12 years' worth of new home construction. Chapman said he hopes to reduce the figure to about three years' worth.

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