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Mexican Homebuilders Emerging from Bankruptcy

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When the Mexican homebuilder industry was falling apart in the summer of 2013 J.P. Morgan Mexico's president, Eduardo Cepeda, told The Economist that "private-debt workouts would be a sign of maturity in Mexico's financial system." By the end of 2015 two of the three leading homebuilders, **Corporación Geo** and **Desarrolladora Homex**, had already emerged from bankruptcy after testing the then recently amended Mexican *Ley de Concursos Mercantiles*, and the third, **Urbi Desarrollos Urbanos**, had received approval from its shareholders to its proposed restructuring plan. The three cases are examples of successful use of pre-packaged proceedings that resulted from private agreements with creditors.

	GEO	HOMEX	URBI
Filing Date	March 20, 2014	April 30, 2014	December 2, 2014
Re-listing Date	December 16, 2015	October 23, 2015	N/A
Plan's Court Approval	June 29, 2015	July 9, 2015	N/A
Restructuring Consideration	Debt for equity + Warrants	Debt for equity + Options	Debt for equity
Number of filing parties	Geo + 15 subsidiaries	Homex + 11 subsidiaries	Urbi + 15 subsidiaries

Cleary Gottlieb represented Corporación GEO in the restructuring of approximately $4.5 billion of its bank and bond debt. GEO was the first homebuilder to reach the pre-pack filing milestone, in the spring of 2014. GEO's reorganization was one of the largest debt-for-equity restructurings in Mexico's history, whereby the creditors and new investors received a majority of equity and control of the company, and the first Mexican restructuring to contemplate debtor-in-possession financing and/or asset sales to keep operations going while the *concurso mercantil* proceeding was pending. Particular challenges were encountered in light of the short life of the amendments to the *Ley de Concursos Mercantiles* that became effective in January 2014.

GEO and several of its stakeholders engaged in restructuring negotiations that began in April 2013. The successful process allowed GEO and 16 of its subsidiaries to file with the support of major banking institutions in Mexico (including HSBC, Banorte, BBVA Bancomer, Banamex, Inbursa and Santander) and of a group of bondholders that was comprised of major financial and investments institutions in the U.S., the UK and Latin America such as Ashmore, Luxor and TCW, which in the aggregate represented approximately 38.5% of GEO's $700 million of high-yield unsecured bonds.

The *concurso mercantil* proceeding was completed on June 29, 2015 when a court approved the pre-packaged plan. Since early November 2015, the restructuring consideration comprised of equity and warrants has been made available to existing creditors of GEO.

GEO was able to re-list its shares for trading on the Mexican Stock Exchange on December 16, 2015, after successfully completing a new equity raise in the amount of MX$3.5 billion, of which roughly MX$1.8 billion were expected to be on the Company's balance sheet after paying transaction costs and certain operating, tax and labor liabilities.

GEO RESTRUCTURING

Closing technical challenges

Equity v. Warrants. The varying nature of the securities that were agreed in the plan to be distributed to unsecured creditors (equity vs. warrants) required a split approach in terms of mechanics. While the equity was made available to creditors, in Mexico, through INDEVAL, warrants are being delivered in physical form to their beneficiaries.

DTC and INDEVAL. For GEO's international bonds, certain mechanics had to be developed to facilitate the distribution process to bondholders because their notes were held through DTC while the equity is held through INDEVAL, which requires the establishment of Mexican brokerage intermediation accounts to directly hold the new securities. The adopted mechanics also envisage the distribution of the restructuring consideration to take place before the discharge of the old bonds in DTC.

Delivering Equity. To navigate legal and regulatory constraints, the delivery of the equity portion of the restructuring consideration was structured through a special-purpose trust established by GEO. Although an effective vehicle, particularly considering that the restructuring consideration will be available to recognized creditors on a continuous basis, GEO's non-Mexican creditors were initially burdened with onerous "know-your-customer" requests from the trustee arising from Mexican regulations. This issue was eventually overcome through an amendment to the trust that allowed foreign creditors to have GEO instruct the trust for the distribution of their corresponding equity.

Re-Listing of Shares. The achievement of the restructuring that culminated in the re-listing of GEO's shares in the Mexican Stock Exchange required the coordination and layering of a number of work-streams. Concurrently with the distribution of the restructuring consideration to recognized creditors, GEO carried out a shareholders meeting to approve, among others, the capital increase that preceded the new money equity raise and consummated such equity raise. All of the above while cash-constrained, under close strict scrutiny of stakeholders and regulators, and while navigating issues to comply with Mexican and U.S. securities laws.