



Special Assets Management

Strategies for Managing Distressed and Non-Performing Assets

Panelists



John Z. Barr
Consultant



Frank Abraham
SVP/Deputy CCO



Kelly Bruns
President/CEO

Overview

- Identification
 - Why do we transfer these loans to SAD?
- Assessment
 - Once transferred, what does SAD do with these loans?
- Communication
 - How does communication with the Borrower change?
 - Does the RM still play a role in managing the credit?
 - How is bank management updated on the progress of the loan?
- Strategy
 - What strategies might Special Assets use to resolve a problem loan?
- Risk Grades, Reserves, Regulatory Concerns
 - How does Special Assets assess risk grades on problem credits?
 - What are common downgrade triggers?
 - When should a loan be placed on non-accrual, be considered doubtful, or loss?
- Q & A

Identification

What is a “Special Asset” and how do we identify one?

- Payment Delinquencies
- Covenant Violations
- Declining Financial Trends
- Adverse Risk Grade Changes
- Bankruptcy or Legal Issues
- Collateral Deterioration
- Industry Downturn
- Credit Reviewer or Regulatory Concerns
- Insider or Fraud Risk
- When is the right time to transfer a loan to Special Assets?
 - Proactive vs. Reactive Approach

Assessment

- Initial Loan Review and Risk Analysis
 - Loan Documentation Review
 - Borrower's Financial Condition
 - Loan Performance History
- Collateral Valuation & Analysis
- Industry & Market Assessment
- Legal & Regulatory Review
- Borrower Engagement & Negotiation Strategy
- Strategy Development & Action Plan- Restructure, Exit, or Liquidation

Communication

- Communication with the Borrower
 - Establish control early, set expectations, gather complete information, remain objective and professional, document every interaction.
- Communication with the Relationship Manager
 - Leverage the RM's insights, align on strategy, maintain a unified message, and keep the RM informed.
- Communication with the Bank Management
 - Be data-driven, outline recovery strategies, provide timely updates, seek necessary approvals.
- Problem Loan Reports
 - Include risk grade, non-accrual status & date, FDM designation, collateral assessment, financial assessment, and quarterly updates

Strategy

- Workout Solutions
 - Forbearance Agreement, loan modification, debt re-amortization, principal reduction, interest-only period, collateral enhancement, DIP financing
- Refinancing or Exit Strategy
 - Encourage refinancing, asset sale for debt reduction, orderly business sale
- Liquidation or Collateral Recovery
 - Voluntary liquidation, repossession & sale, UCC sale (asset-based lending), third party auction or receiver management
- Legal Action & Bankruptcy Management
 - Demand letters, negotiations, litigation and judgements, bankruptcy (Chapter 7 or Chapter 11)
- Debt Sale to Third Parties

Risk Grades, Reserves, Regulatory Concerns

- Establish objective, time-bound triggers for upgrade or downgrade and follow them
- Financially Distressed Modifications
- Non-Accrual Status- 90+ days past due unless well-secured and in active collection or repayment is doubtful based on financial review
- Addressing Auditor and Regulatory Credit Quality Concerns
 - Volume of classified loans, rate of migration to criticized and classified
 - Adequacy of Individual reserves
 - Effectiveness of special assets and workout strategies
 - Engagement with bank examiners and auditors

Questions?

