

Public Announcements

Danaharta Unveils Loan Restructuring Guidelines

7 April 1999

Pengurusan Danaharta Nasional Berhad (Danaharta), the national asset management company, announced details of its loan restructuring guidelines today. Whilst the removal of non-performing loans (NPLs) remains its top priority, the growing number of NPLs in its asset portfolio means that the task of managing these loans has become increasingly important.

Since its first acquisition in August 1998, Danaharta has made significant inroads in removing NPLs from the financial sector. It expects to complete the acquisition of NPLs by June 1999, six months ahead of schedule. As the acquisition stage reaches maturity, Danaharta's activities will gravitate towards asset management.

Danaharta's approach to management is to apply either loan management or asset management strategies. **It will apply loan management strategies to loans that it finds viable after careful evaluation.** This will involve loan restructuring strategies such as the rescheduling of loans and debt-equity conversions. In view of this, Danaharta has formulated a set of guidelines to assist it in the restructuring of these viable loans. Guidelines for asset management will be released in due course.

The loan restructuring guidelines are divided into four (4) segments, which are:

- Loan Restructuring Principles,
- Guidelines for corporate borrowers,
- Guidelines for individual borrowers and
- Guidelines for guarantors.

The Loan Restructuring Principles must be adhered to whereas the guidelines should, as far as possible, be applied.

Danaharta's Managing Director, Azman Yahya, said that, "In formulating the guidelines, maximising the overall recovery value and minimizing the cost to taxpayers were among the objectives taken into consideration". The other objectives that were taken into account were the need to ensure fair treatment of all stakeholders and the appropriate utilization of Danaharta's special powers.

"These guidelines will promote transparency and provide the basis for borrowers and advisors to formulate workout proposals", Azman added.

Under the Loan Restructuring Principles, borrowers are expected to take the first and proportionately larger haircut in any restructuring exercise. Where loans are restructured, these will be subject to stringent monitoring by Danaharta and, where appropriate, special powers under the Pengurusan Danaharta Nasional Berhad Act 1998 will be utilised. If the scheme fails, Danaharta will further exercise its special powers and switch to its asset management strategies. As the borrowers face clear consequences in the event of failure, lenders benefit from the efforts borrowers put into meeting their debt obligations.

Commenting on the terms of the restructuring guidelines, Azman pointed out that the guidelines stipulate for example, that if loan stocks are issued for settlement, it should bear reasonable coupon with repayment periods not exceeding five (5) years. This gives the lenders the opportunity to monitor the progress of the restructured borrowers, and detect problems early.

For full details of the loan restructuring guidelines, please see the attached appendices.

- APPENDIX I** Loan Restructuring Principles
- APPENDIX II** Guidelines for corporate borrowers
- APPENDIX III** Guidelines for individual borrowers
- APPENDIX IV** Guidelines for guarantors
- APPENDIX V** Approach to management

For further information, please contact:

Pengurusan Danaharta Nasional Berhad

- Ng Mun Yee-ext.1214 (03-461 7110)
 - Nora Shah-ext.1210 (03-461 7107)
- General Line: 03-253 1122

APPENDIX I

1. LOAN RESTRUCTURING PRINCIPLES

The following are the Loan Restructuring Principles that must be observed:

1.1 Haircut to the shareholders of the borrower

Under the scheme, the shareholders must take a proportionately bigger haircut, i.e. where the scheme requires debt reduction, the share capital reduction ratio must be greater than the debt reduction ratio. In addition, subordination of shareholders' loans (if any) would be made a prerequisite to the scheme.

1.2 Fair treatment to secured and unsecured creditors

Schemes must reflect a genuine effort by the borrower to settle with the creditors in a fair manner. Settlements to secured creditors must be more favourable than those offered to unsecured creditors.

1.3 No dilution of inadequate security

Schemes should not result in a dilution of the security to the lenders unless the collateral is in excess of the outstanding loans. All forms of cash collateral must only be utilised to retire or settle the outstanding loan amount.

1.4 Only one opportunity given

Danaharta will only give the borrower one opportunity in implementing a scheme. This is to prevent borrowers from making unnecessary revisions once the scheme is implemented.

1.5 Make borrowers work for lenders

Any scheme must allow for the lenders to also benefit from efforts put in by borrowers. Whilst viable borrowers are given the time and opportunity to make good their obligations, they will be closely monitored as to performance and efforts to repay lenders.

APPENDIX II

2. GUIDELINES FOR CORPORATE BORROWERS

The following are the guidelines for corporate borrowers that should be adhered to:

2.1 Terms of settlement offered

No zero coupon structure should be entertained. All financial instruments offered should have a reasonable yield commensurating the cashflow of the borrower.

2.2 Clarity of usage of funds

The usage of funds proposed under a scheme should be clearly identified/defined at the outset and strictly adhered to.

2.3 Equity-kicker elements

The scheme should involve equity-kickers such as warrants, convertible loans, etc.

2.4 Repayment period

The repayment period for restructured loans should not exceed five (5) years.

2.5 Benefits of written down assets

Any subsequent value realized in excess of the book value of assets (written down as part of the scheme) should be subjected to a sharing ratio between the borrower and the lender.

2.6 Anti-dilution clause

The scheme should incorporate an anti-dilution clause to ensure that the intrinsic value of the equity or quasi-equity is maintained. This clause will also pre-empt any attempt by the shareholders of the borrower to dilute the eventual shareholdings of creditors through issuance of new shares.

2.7 The scheme should contain some covenants for monitoring purposes such as:

- A monitoring mechanism
- Inter-company lending
- Transfer of assets
- Dividend payments
- Future borrowings.

APPENDIX III

1. GUIDELINES FOR INDIVIDUAL BORROWERS

The following guidelines apply to individual borrowers and should be adhered to in schemes approved by Danaharta

3.1 Statutory declaration

All individual borrowers are required to give a statutory declaration on their net worth. This requirement is to increase the borrowers' accountability in relation to the scheme.

3.2 Legal proceedings in the event the scheme fails

Legal proceedings are to be taken against the borrower should the scheme fail.

3.3 Annual review of performance

The scheme is to be closely monitored via an annual review of performance.

3.4 Moratorium on the disposal of personal assets

Disposal of personal assets by the borrower should not be allowed during the duration of the scheme unless the proceeds are for the settlement of debt outstanding.

3.5 Consent judgement

Consent judgement should be obtained from borrowers prior to the commencement of the scheme allowing Danaharta to apply all available avenues for recovery in the event of the scheme failing. This will pre-empt any actions by the borrower to delay recovery measures.

3.6 Equity-kicker

The scheme should include the provision of an equity-kicker to Danaharta.

3.7 Repayment period

Repayment periods for restructured loans should not exceed five (5) years.

3.8 The scheme should contain some covenants for monitoring purposes such as:

- A monitoring mechanism
- Future borrowings.

APPENDIX IV

1. GUIDELINES FOR GUARANTORS

The following guidelines apply to guarantors and should be adhered to in schemes approved by Danaharta

4.1 Substantial and critical guarantors

Where the lending was made based on the standing and/or networth of corporate or individual guarantors, the recovery measures must recognise the obligation of the guarantors. As such, relevant provisions of the guidelines for corporate and individual borrowers should apply.

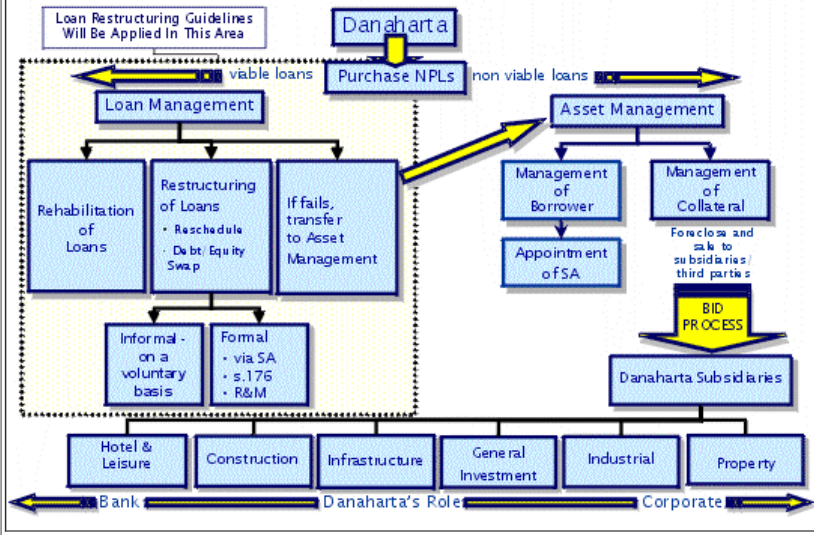
4.2 Other guarantors

In respect of other guarantors, no release of guarantees should be considered unless all feasible recovery measures have been pursued.

APPENDIX V



APPROACH TO MANAGEMENT



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