LRU Policy for Loan Workout

Loan Recovery Unit

FINSAC'S STANDARD POLICY FOR NON-PERFORMING LOANS WORKOUT

GUIDING PRINCIPLES

FINSAC's Loan Recovery Unit (LRU) was created to maximise the recovery of value / minimise the government's costs from a portfolio of distressed loans, through the employment of an equitable and professional workout process. Given FINSAC's role in rehabilitating the financial sector, the Unit would ideally prefer rehabilitation of all loans, but is fully cognisant that asset sales will frequently become necessary to offset the government's loan-purchase expenditure.

The **set of key principles** noted hereunder was created to guide the operations of the Loan Recovery Unit.

1. FINSAC is not a bank and is therefore unable to extend further credit – except in cases where loans already purchased have a commitment from the originating institution. In such instances, FINSAC will not continue said disbursement unless adequate security is in place and the debtor acknowledged the additional facility by way of Letter of Commitment, et al.

2. FINSAC must ensure consistent treatment of all debtors in the portfolio.

3. FINSAC's charter is for a maximum seven (7) years; all loans should be resolved (worked out / rehabilitated and turned over to the banks) well within that period.

4. FINSAC must as a priority, recoup costs associated with collection of debts.

These guiding principles have been used to develop standard policies for the Unit to ensure fair and uniform treatment of all debtors. Although the Credit Committee generally conducts case reviews in certain instances, the Board may be required to pass resolution on matters outside the purview of the Credit Committee.

STANDARD POLICIES

To ensure uniformity and equal treatment in the workout process for all debtors, the Credit Committee has created a set of standard policies that apply to:

- Debt Consolidation
- Decision Authority
- Selection of workout strategy (including referrals to the Oversight Committee)

- Write-offs and relief (loan forgiveness, payment moratoriums)
- Finance (interest rates, extended payment tenure, accelerated repayments, payment allocation, miscellaneous fees / charges)
- Legal
- External Service Providers

Debt Consolidation

All common debtors across FINSAC's portfolio will be consolidated for workout purposes, so that loan facilities that share the same primary debtor(s) will be treated as a single case. All debt settlement proposals must address the liabilities in their entirety.

Decision Authority

Many of the decisions that must be taken will require judgement on the part of the Loan Recovery Unit. Thus, decision rights have been distributed across the FINSAC Board, the Credit Committee, the Loan Recovery Unit Head, and Loan Recovery Unit Team Managers.

Where a decision involves the compromise of a debt, the following terms will apply:

> Write-off : this relates to a compromise relative to the purchase price.
> Forgiveness : this relates to a compromise relative to the balance outstanding – but in excess of the purchase price.
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> **FINSAC Board**
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> The **FINSAC Board of Directors**, appointed by the Minister of Finance, has the ultimate decision-making authority for the Loan Recovery Unit's workout activities. The Board reviews decisions taken by the Credit Committee to ensure consistency of decisions with standard policies.
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> **Loan Recovery Unit Credit Committee**
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> The Credit Committee meets regularly to review and approve the treatment of major cases, that is, accounts with balances exceeding J$5M. The Credit Committee comprises the Managing Director, General Manager – Asset Management & Divestment, General Manager – Monitoring & Supervision, the Senior Manager – Loan Recovery Unit, Manager – Disposal Unit, and the Senior Legal Counsel.
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> **The Credit Committee:**
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> - Approves valuations for loans with balances in excess of $5M.
> - Approves workout strategies on loans with balance between J$5M and J$15M.
> - Reviews proposals for referrals to the Oversight Committee.
> - Makes recommendations to the FINSAC Board regarding workout strategies on loans with outstanding balances over J$15M, not involving compromise in excess if 20% of the outstanding balance.

Loan Recovery Unit Head

The Senior Manager of the Loan Recovery Unit has the following decision rights:

- Approval of valuations and workout strategies on loans outstanding balances of up to $5M (principal plus interest in arrears).
- Approval of write-downs of suspended interest.

Loan Recovery Unit Team Managers

Each Loan Recovery Manager has the authority to:

- Write-down suspended interest where the balance of the entire amount due is being collected.
- Approve re-financing (i.e. extension of loan payments, change interest rate) as long as the calculated Net Present Value (NPV) remains the same for debts less than $5M.

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Selection of Workout Strategies

In developing workout strategies to be proposed to the Credit Committee or the Unit Head, several factors are considered:

- All proposals must be valued on a Net Present Value basis for the purpose of comparison – proposals with the highest NPV are usually recommended. However, proposals ranking below the highest may be considered in instances where:
  - The NPV is close to the highest within x% and the proposal maintains its viability.
  - The likelihood of the success of the highest-ranked NPV proposal is low.
- If the debtor's business is in one of the productive sectors (e.g. manufacturing, agriculture, tourism), the Unit will consider referral to the Oversight Committee set up by the government.

Within three (3) days of meetings held with debtors and or, their representatives, letters are prepared and forwarded outlining the salient issues of the discussions.

Where a case has been submitted to the Oversight Committee, the debtor is informed of said submission. The debtor may be permitted a moratorium on Principal and Interest (within the standard policy) while the Oversight Committee conducts its revision. At the end of the moratorium, and the Oversight Committee's indicated inability to assist the debtor, FINSAC will act unilaterally to inform of its chosen course of action.

Write-offs and Relief

FINSAC has very strict policies that limit the Loan Recover Unit's ability to grant loan forgiveness or moratoriums on repayments. The majority of such decisions require Credit Committee approval and or, FINSAC Board approval.

<u>Loan Forgiveness</u>
No loan forgiveness will be approved prior to debtor making a

significant lump sum payment or consistent payments over a 12-month period, as approved by the Credit Committee or the Board (see limits established under Decision Authority)
The Credit Committee must approve the amount of the loan forgiveness, and the debtor must provide written evidence of inability to repay the amount for which forgiveness is being sought.

Payment Moratoriums
Assuming performance under all terms of repayment agreement between FINSAC, the debtor and any third party (e.g. NIBJ, NDB, etc), a moratorium may be granted in accordance with said third party's submission.

Finance

Interest Rates

- All extended loan payments must accrue interest of at least 25% p.a. on J$ denominated loans, and 15% p.a. on US$ denominated loans, except where it is recognised that it will be impossible to collect the interest being accrued, and the proposal is consistent with the policies for the selection of workout strategies.
- Interest is computed on a simple interest basis based on the principal balance outstanding.
- The rate is variable and is loosely tied to the Treasury Bill rate.

Miscellaneous Fees / Charges
FINSAC will add to debtors' accounts, all costs associated with discharging debt and securities, including documentation charges, stamp duties and transfer taxes.

Payment Allocation
Payments received are first allocated to fees and charges, thereafter to Principal and then to Interest.

Early Payments
Remittances in excess of the agreed payment amount are applied to the Principal.

Extended Payments
Extended Payments have been granted for a maximum 6 years where the proposed “new” payment schedule has an equivalent NPV to the original loan.

Securities
Pledged securities will not be released unless in exchange for cash value of the security, of Credit Committee-approved security of higher value.
FINSAC will not release securities for further interest to be noted thereon unless a reasonable payment arising from the additional liability of the debtor is received.

Legal

All new agreements require a standard legal contract that must be executed by the debtor, and be inclusive of the following clauses:

- Stated penalties for violation of contract terms.
- Increased securitisation of debt.

- Agreement to provide financial statements (including Cash Flow projections) and Statement of Affairs on an ongoing basis until the debt is expunged. Statements must be provided within 30 days of the end of the accounting period.

All FINSAC proposals / agreements will be forwarded to the debtor, and requires response within a stated timeframe. Assuming no response is received within the designated period, FINSAC will seek to follow-up with the debtor by indicating its intended course of action.

External Service Providers

- FINSAC defines a list of approved service providers (real estate valuators and brokers, Receivers, etc).
- External valuators are to be retained on a flat fee basis (based in the type of real estate being valued).
- Receivers must agree to perform a comprehensive situation diagnostic, including strategic options and recommendations, and provide monthly audited financial statements / Receiver's reports to FINSAC.

Asset Repossession & Realisation

- Assets are repossessed in instances where the liability is not being adequately serviced, and no feasible settlement proposal is forthcoming.
- All assets being divested via Private Treaty are handled by FINSAC's Asset Disposal Unit.
- Attending costs for seizure, storage, sale et al are recovered from sale proceeds of the asset.
- The seized asset(s) is / are sold at prices guided by professional valuations not older than 6 months in the case of motor vehicles, and 12 months in the case of real estate.
- All real estate must first be offered for sale by Public Auction before being referred for sale by Private Treaty. All properties available for sale by Private Treaty must be listed with approved brokers; all such sales are subject to FINSAC Board approval / ratification.
- The seizure of an asset does not relieve the debtor of his obligations under the indebtedness; interest continues to accrue until the asset is divested.

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