MICROFINANCE CENTRE

European Commission

How to Build a Corporate Immune System in Response to COVID-19

BUILD A CORPORATE IMMUNE SYSTEM IN RESPONSE TO COVID-19

BY MICROFINANCE CENTRE

Loan restructuring

16/04/ 2020

Webinar house keeping rules

- Please switch off your webcam
- Please swith off your microphone during the presentation
- Please write your questions in the chatbox

The webinar is **recorded**

It will be available at mfc.org.pl

EaSI Technical Assistance to the European Microcredit Sector

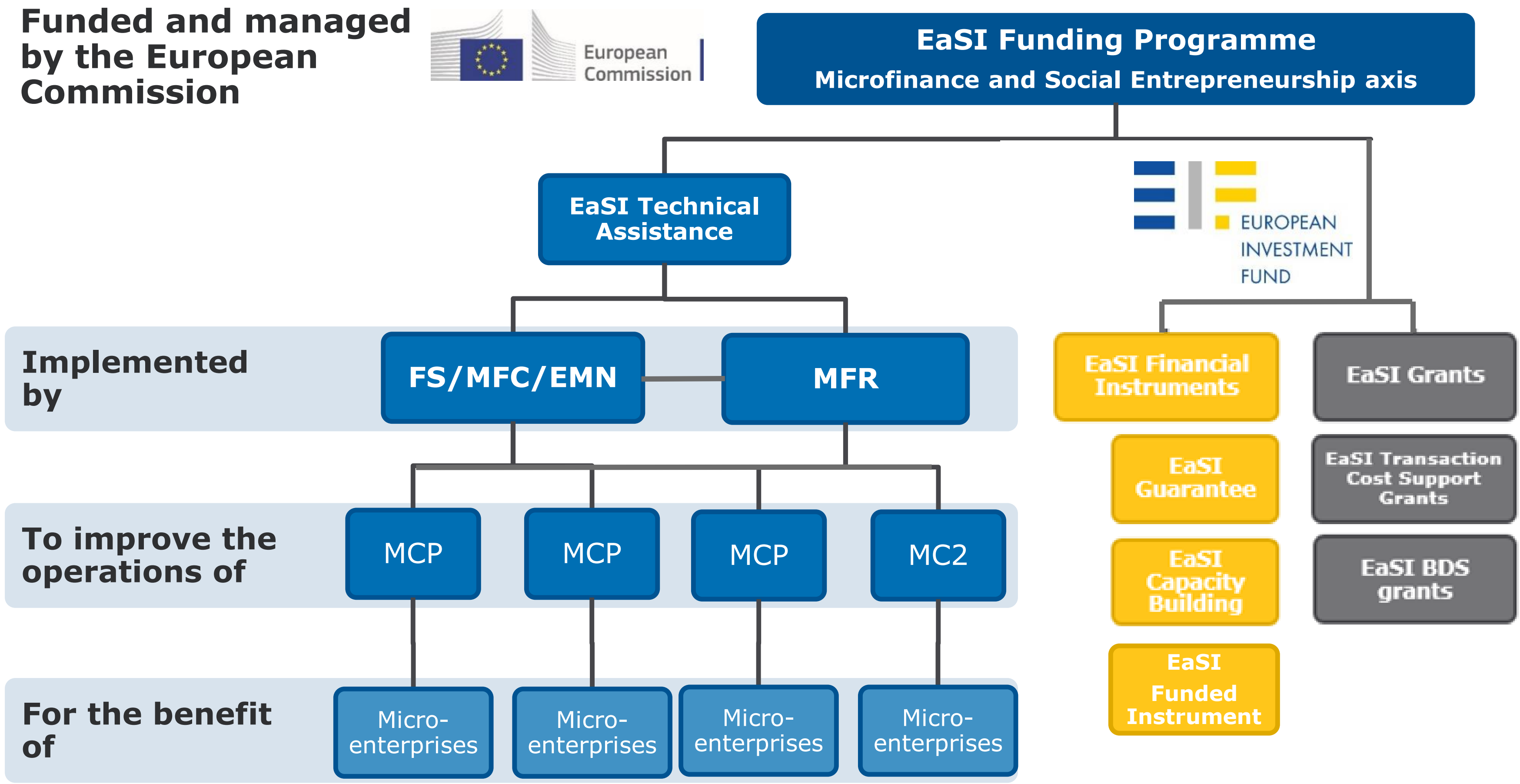
European Commission
DG Employment, Social Affairs and Inclusion

Programme Snapshot 2019

European Commission

This project has received financial support from the European Union Programme for Employment and Social Innovation "EaSI" (2014-2020).

EaSI Technical Assistance within the EU Programme for Employment and Social Innovation (EaSI)



The EaSI Technical Assistance Service Providers

Service Providers

Technical Assistance:

» Frankfurt School of Finance and Management gGmbH (FS) – Consortium Leader for the Technical Assistance Services
» Microfinance Centre (MFC) – Consortium Partner
» European Microfinance Network (EMN) – Consortium Partner

Assessment, Evaluation and Ratings:

» MF Rating – Provider of Institutional Assessments, Rating and Evaluations

Project Beneficiaries and Geographic Coverage

» Public and private financial intermediaries (greenfield microfinance institutions, non-bank microcredit providers, fintechs, licensed banks and guarantee granting entities) in all Member States of the European Union, as well as providers from Albania, North Macedonia, Iceland, Montenegro, Norway, Serbia and Turkey may respond to dedicated Calls for Expression of interest to request EaSI Technical Assistance.

How to Apply for Technical Assistance?

» Before applying eligible microcredit providers must first sign-up to or endorse the European Code of Good Conduct for microcredit provision.
» To apply respond to open Calls for Expression of Interest published on the ec.europa.eu/social/easi webpage.

EaSI Technical Assistance Overview

What is offered to whom?

Selected Beneficiaries

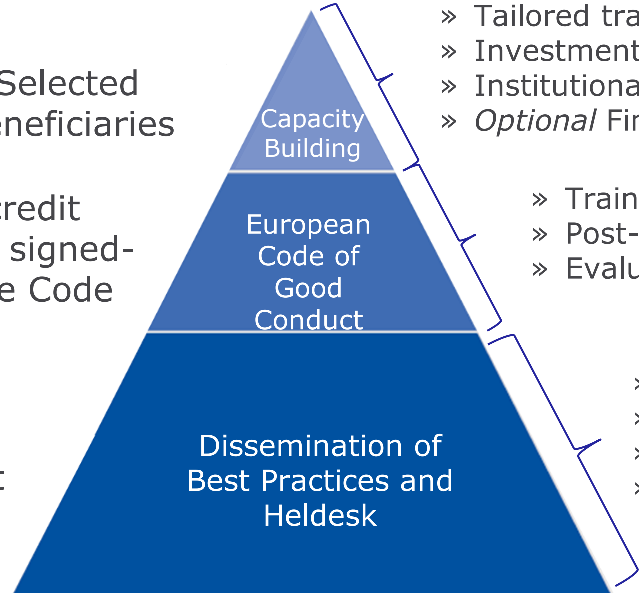
- Tailored trainings
- Investment-readiness trainings
- Institutional Assessment
- *Optional* Financial or Social Rating

Microcredit providers signed-up to the Code

- Trainings on the implementation of the Code
- Post-evaluation trainings
- Evaluations of the Code compliance

Wider European microcredit sector

- Microfinance Workshops and Webinars
- Peer-to-peer trainings
- Study Visits
- Heldesk



July 2018 — July 2022

Project Duration – 4 years

EaSI Technical Assistance

For more information, about:

Technical Assistance, contact:
easi.ta@fs.de

Ratings and Evaluations, contact:
easi.ta@mf-rating.com

The EaSI Programme, visit:
ec.europa.eu/social/microfinance

This project has received financial support from the European Union Programme for Employment and Social Innovation "EaSI" (2014-2020).

How to Build a Corporate Immune System in Response to COVID-19 – webinar series

- 22.04, 13:00 – 14:30 CET - Amendments to lending policy for new products and online channels
- 23.04, 11:00 – 12:30 CET - Risk management for beginners and back-up staff
- 29.04, 11:00 – 12:00 CET - Financial planning and financial modelling

Please check www.mfc.org.pl for the webinars recordings

MICROFINANCE CENTRE

MICROFINANCE CENTRE

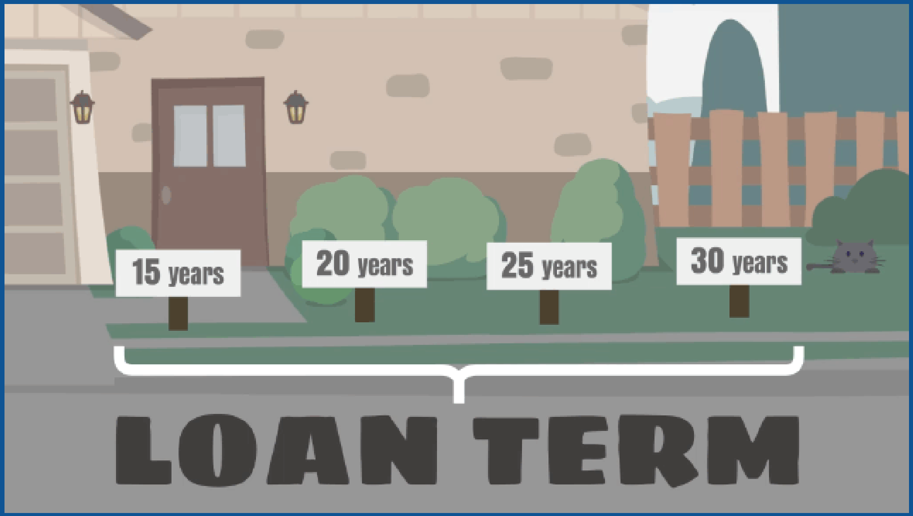
Artur Munteanu

Entrepreneur, Finance Executive and Enterprise Development Expert

Kinga Dąbrowska,

Programs Manager, MFC

European Commission



EaSI Technical Assistance

Loan restructuring

Webinar 3

Artur Munteanu, MBA
arturmunteanu@yahoo.co.uk

16/04/ 2020,
online Zoom

Agenda

I. Loan restructuring policy (assets)

Loan restructuring policy and process structure

Eligibility criteria

Rescheduling
Refinancing
Consolidation

II. Loan restructuring (liabilities)

Process

Covenants

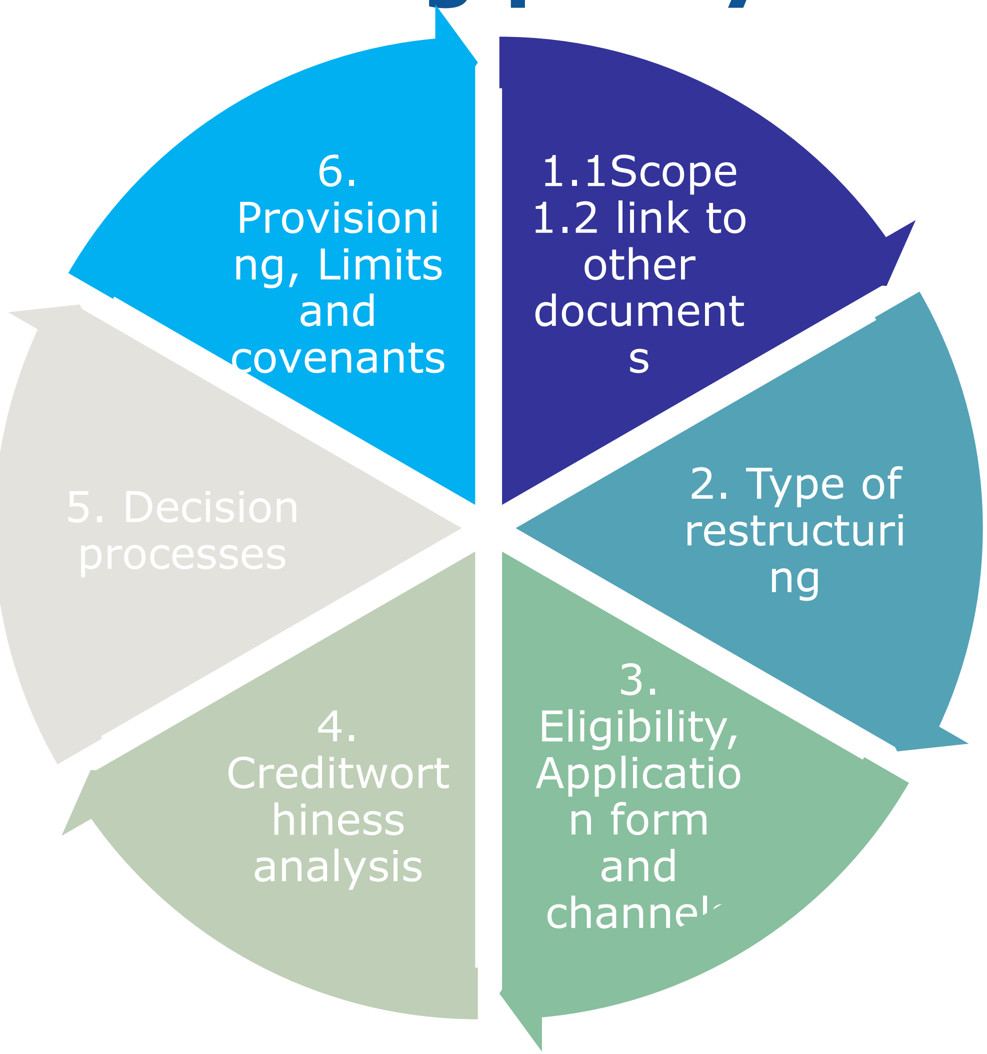
Communication

Legal Aspects

IT and MIS aspects

Loan restructuring policy

Loan restructuring policy



Type of loan restructuring

Type of loan restructuring

Clearly define terminology in your policy

Consult a lawyer

Loan restructuring – may include changes to one or majority of the terms of the loan agreement. Usually will be an amendment to the loan agreement.

Loan restructuring usually will include rescheduling but not only. It may include interest rate changes, collateral, covenants

Type of loan restructuring

Clearly define terminology in your policy

Consult a lawyer

Rescheduling - changing the repayment schedule.

It can be only for principal

It can be for principal and the interest

It can be for penalty

Type of loan restructuring

Refinancing – taking a new loan to repay the old loan

IT can be an old good/ standard loan (paid in time)

It can be an old substandard loan overdue loan

Type of loan restructuring

Refinancing – taking a new loan to repay the old loan

Refinancing as rescheduling may decrease liquidity

Refinancing may bring additional liquidity if well structured

Communication to clients and staff

No need to do restructuring for all clients even they are not operating

Some clients may pay in advance if you call, send e-mail and inform them about this.

You may want to cancel penalty for earlier repayments. You need liquidity

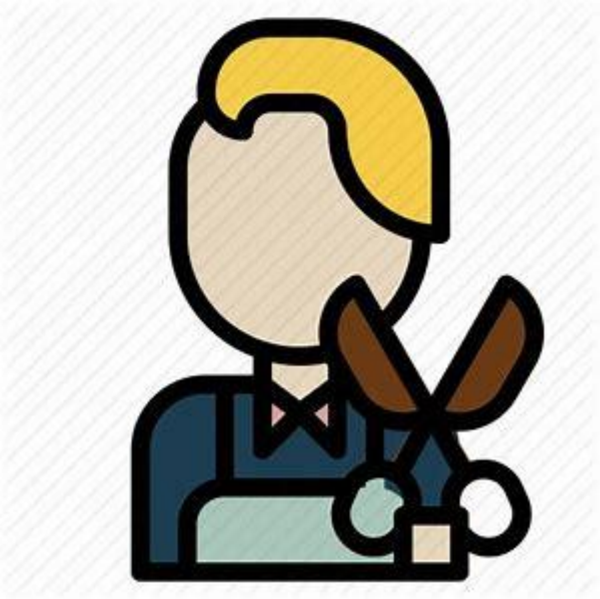
Type of loan restructuring

Consolidation of loans

Some clients have 2-3 loans you may want to consolidate in one with the same conditions

You may need to consolidate in one with different terms including longer term

“Haircut” in loan restructuring



Penalty cut during pandemic crisis

Interest cut

Principal cut

European Commission

Eligibility criteria and applications

Eligibility financial institution (FI) rules

For all financial institutions clients with suspended activities for 3 month or

that have registered in march and aprilie decrease in sales by more than 20%

except those clients that registered overdue (delinquent) loans at the end of March 2020 with more than 30 days.

Ineligible clients in normal economic environment, financial institution (FI) rules

Clients that have no income,

Clients current financial standing cannot be assessed

Eligibility financial institution (FI) rules

What confirmation to present or what to check that activity was suspended:

Declaration of the owner and manager

Or a letter sent to Authorities like Chamber of Commerce

Or Government data base that can be verified

Eligibility Government rules

For all clients that in conformity with Government moratorium (certain business activities were suspended, list the business) payments were rolled over for up to 3 month or up to 9 month.

Credit worthiness analysis (normal cases)

Restructuring can be done ONLY

- **based on financial analysis (for business and the household),**
- **when client's payment capacity is identified and**
- **payments according to new schedule are highly probable (score 8-10);**

- **Or based on new financial analysis or credit worthiness analysis (elaborated specifically for restructuring)**

Credit worthiness analysis (pandemic)

Restructuring can be done ONLY

- **Based on Government regulations, National Bank Regulations**
- **No analysis**

Loan restructuring application

The same as loan application or New?

We recommend new application

Loan restructuring application channel

Avoid submission to the office

Submission via electronic channels (e-mails, viber, Whats App etc). Clarify channles

Restructuring decision

Loan restructuring decision

Validation of the eligibility

Final decision

- **Highest credit/risk committee?**
- **All credit comities as usual?**
- **Highest credit committee?**
- ***Did you automatize the credit decision or still credit committee minutes on paper***

II Loan restructuring liabilities

Preconditions

Stress test ready

Stress test summary ready

Cash flow stressed tested agreed with shareholders

European
Commission

Preconditions

Cash flow stressed tested agreed with key lenders (supporters if any)

Key message ready:

Our MFI will need to restructure 40% of our portfolio, because 40% of our clients suspended their activities and this means 51 million C not coming in time. If we do not rollover liabilities we will be in default in June. Our shareholders are ready to invest 5 million new equity. Thus we kindly request liabilities rollover for 12 month.

Preconditions

Involve top managers and key Board Members and Shareholders

Make sure that all are very well prepared for negotiations

A message from shareholders that we looking at possibility to increase equity is a good start of the negotiation process

Preconditions

Loan restructuring means first of all business restructuring thus communicate clearly actions implemented and to be implemented in a comparative table.

Communicate clearly actions implemented and to be implemented in a comparative table

Group	Key actions			
	Before the crisis	During the crisis 1-3 month	During the crisis 6 month	During the crisis 12 month
Shareholding		Change 1 Change 2		Change 3
Management		Change 1 Change 2	Change 3	Change 4
Lending process		….		
Restructuring processes				
Risk management				
IT systems				
Distribution channels			…..	
Organization structure and HR				…..

Communication with lenders

Ideally will be to have a restructuring business plan in place before restructuring agreement

Lenders may decide a stand still during which they will offer time 30 days – 60 days for the company to comeback with a restructuring business plan.

Negotiations objectives with lenders

Examples

1. Standstill: "…Lenders shall not take any Enforcement Action"

2. Rollover: "…Lenders shall rollover 9 month of On Time Principal Repayments for

- **Minimum 12 month,**
- **Ideally 24 month "**

Negotiation terms

Restructuring terms

- **Rollover period**
- **Rollover of principal or of the interest as well**
- **New Covenants (financial indicators and limits, information furnishing covenants)**

Consulting and Advisory if any

Specific audit if necessary

Lawyers and legal opinion

Negotiations

If any repayment to be made it shall be pari passu:

side by side; at the same rate or on an equal footing.

If the MFI plans to repay a part of liability. Ideally will be to repay that amount to all lenders in the proportion of their loan in total liability.

Negotiations

Biweekly teleconferences or video calls

Take minutes

Send minutes via e-mail

Covenants

National Bank put a moratorium on provisioning norms for three month, thus your provisioning cost will not go up.

Will the lenders put automatically a moratorium?

You will need to clarify and negotiate with lenders.

Covenants

For minimum two years you will need flexible covenants ratios:

Capital adequacy ratio

Restructuring ratio

PAR ratio

Write off ratio

Maturity risk

Forex risk

Provisioning

Covenants: Reserve ratio

During last crisis and in normal situation lenders and MFIs will increase the provisioning cost and reserve ratio for the restructured portfolio at list for certain period.

What to do in pandemic crisis?

- **If no additional provision, no need for additional capital**
- **If additional provisioning there is a need for additional capital from shareholders?**

Covenants

Stress test new covenants,

Make sure that you have in your stress test model all financial indicators,

Make sure that you will not breach them again

Restructuring agreement

Negotiation of the agreement text

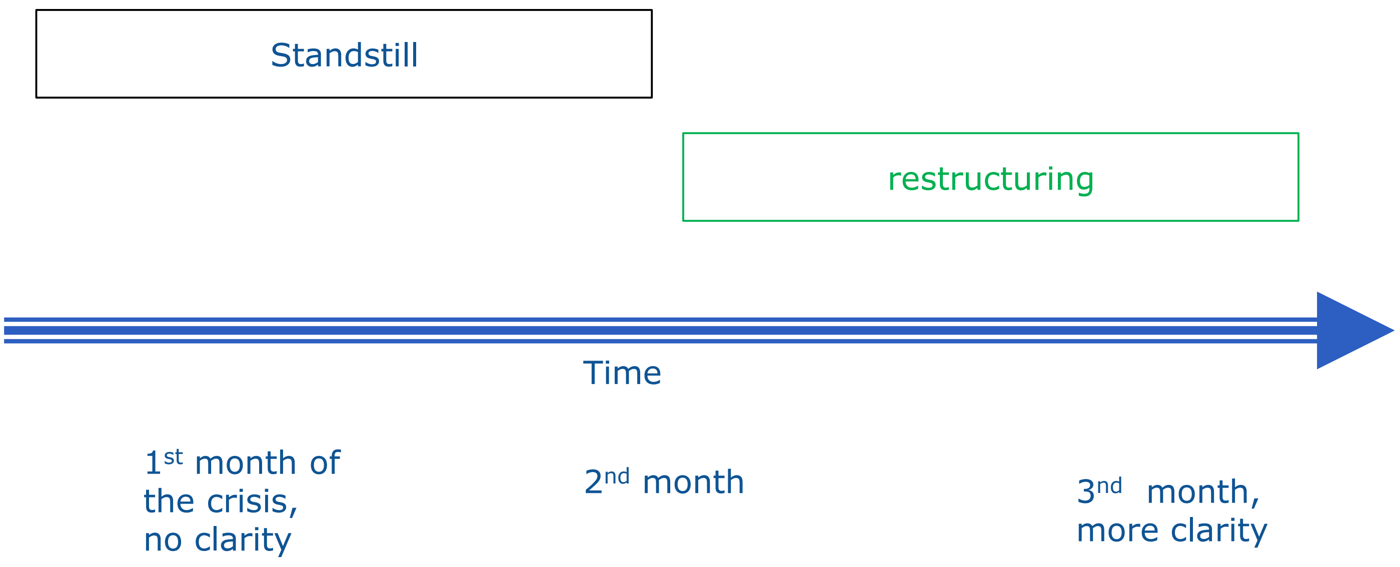
Involve lawyers: local and internationals

This may cost 10 – 40 k Euro

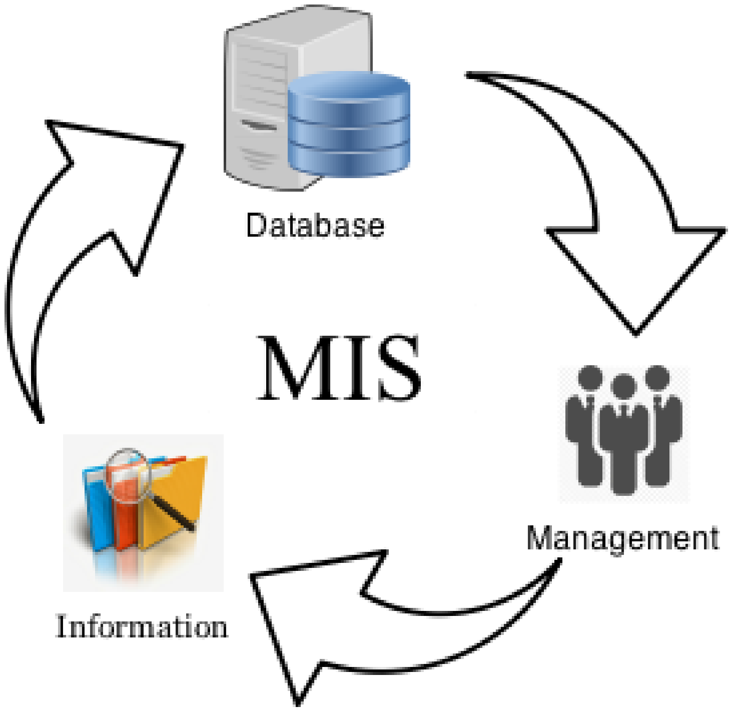
Restructuring agreement

You may want to negotiate Technical assistance for the online channel or restructuring policy or collection and recovery or online channel

Stand still vs. restructuring



IT and MIS



IT and MIS

Get assurance that your MIS can track separately all restructured loans and refinance loans

Make sure that original payment schedules does not disappear by introducing new repayment schedules after restructuring

You may want to limit the number of people that have access to restructuring option

IT and MIS

Ask your auditor or external IT audit to test the new restructuring option

Make sure that MIS has transaction log options and that logs are stored properly

If you will receive restructuring request online make sure that data is properly processed and stored

If e-mails are used as communication channels make sure that 2 e-mails addresses are used

European
Commission

Terminology

Terminology

Stand still,

*In the banking and finance world, a **standstill** agreement between a lender and borrower halts the contractual repayment schedule for a distressed borrower and forces certain actions that the borrower must undertake. A new deal is negotiated during the standstill period that usually alters the loan's original repayment schedule.*

Terminology

Restructuring change the repayment schedule and repayment final date (due date) including other loan terms and conditions (collateral, interest rate

A moratorium is the same as rollover or deferment in this presentation.

A rescheduling can be on only on principal, but as well on interest

Rescheduling may be: within the existing schedule and due date but as well by extending the final due date

Refinancing in legal terms will be a new loan agreement at a different interest rate and with several other conditions

Terminology

Moratorium on payments, Rollover, Deferment

A moratorium allows you to delay the payment of a debt for a finite period of time. In the loan context, this is also known as a deferment or forbearance. If you are facing a temporary hardship, you can request a moratorium and briefly postpone your loan payments.

Moratorium is a sort of granting of a 'holiday'- it is a repayment holiday where the borrower is granted an option to not pay during the moratorium period. It is a restructuring of the terms of the loan with the mutual consent of the lender and the borrower.

Terminology

Forbearance, in the context of a mortgage process, is a special agreement between the lender and the borrower to delay a foreclosure. According to this agreement, the lender delays its right to exercise foreclosure if the borrower can catch up to its payment schedule by a certain time. This period and the payment plan depend on the details of the agreement that is accepted by both parties. (https://en.wikipedia.org/wiki/Forbearance)

Forbearance is a temporary postponement of mortgage payments. It is a form of repayment relief granted by the lender or creditor in lieu of forcing a property into foreclosure. Loan owners and loan insurers may be willing to negotiate forbearance options because the losses generated by property foreclosure typically fall on them. Forbearance provides the borrower time to repay delinquent mortgage sums.

The borrower must demonstrate the cause for repayment postponement, such as financial difficulties associated with a major illness or the loss of a job. (Investopedia)

Terminology

"Pari-passu":

side by side; at the same rate or on an equal footing. If the MFI plans to repay a part of liability. Ideally will be to repay that amount to all lenders in the proportion of their loan in total liability.

"Required Lender Majority" *means Lenders holding at least seventy percent (70%) of the principal amount of the Loans then outstanding.*

Terminology

"On Time Principal Repayment" *– principal repayments according to original repayment schedule*

"Deferred Principal Repayment" *– new, rolled over principal repayment schedule*

MICROFINANCE CENTRE

European Commission

Thank you!

Contact us!

Microfinance Centre
Noakowskiego 10/38
00-666 Warsaw, Poland
+48 22 622 34 65

kdabrowska@mfc.org.pl

BUILD A CORPORATE IMMUNE SYSTEM IN RESPONSE TO COVID-19
BY MICROFINANCE CENTRE