

COMMERCIAL REAL ESTATE FINANCE – MANAGING DISTRESSED DEBT

OVERVIEW

This course focuses on the skills required for identifying and managing distressed debt in Commercial Real Estate Finance (CREF). It takes participants through the debt risk metrics suitable for identifying and assessing problem loans, the economic and regulatory context for distressed debt, key workout, and resolution strategies. It can be taken as a stand-alone course, or it can be combined with 'Origination and Credit Risk Management'.

The course encourages delegates to develop early warning signals, tag watch list exposures and contextualize distressed debt in order to identify suitable workout and resolution strategies. Progressing from risk metrics and regulatory capital implications of problem loans, sessions review the impact of stress testing and new regulatory requirements and go through classifying and dealing with stressed exposures, undertaking workouts and resolution at sponsor level or as part of bank-wide portfolio management, e.g., through non-performing loan (NPL) portfolio sales. The course seeks to impart analysis skills and supervision recommendations which can be put into practice immediately. Case studies, examples, checklists and other tools are used to facilitate learning. The aim is to highlight best practices and explore a range of potential solutions for the lender.

WHO SHOULD ATTEND?

This course is designed for CREF and Corporate Banking professionals. It will be of interest to those with responsibility for CREF credit policies and procedures, risk analysis and credit approval, monitoring and loan servicing, collections and workout, non-core asset deleveraging, portfolio, and regulatory capital management (including stress testing), as well as securities investment analysis for CRE companies and/or bonds. If you are asking yourself any of the following questions, then this course should definitely be of interest:

- *How do I define default, watch list and NPL trigger levels in my CRE loan book?*
- *What are the portfolio level implications of distressed debt in terms of RWAs and regulatory capital?*
- *What drives deleveraging and NPL portfolio investments?*
- *What strategies can I employ to successfully restructure distressed debt?*
- *What is the best way to work out distressed CRE debt and why work it out rather than enforce security?*

OBJECTIVES

- Participants will come away from this course with a deeper knowledge and understanding of:
- How risk metrics (PD, LGD, etc.) are determined and how they impact RWA and capital allocation.
- How to use scenario modelling and covenant testing as early warning signals
- The benefits of regular collateral level reporting and exposure aggregation to manage distressed debt.
- Using a critical assessment of sponsor quality and market conditions to inform choice of workout strategy.
- Designing standstill, extension and restructuring terms to address the underlying cause of distress.
- Workout strategies at exposure level: share enforcement, consensual sales, DPO, REO, auctions
- Workout strategies at portfolio level: NPL & PL portfolio sales, securitisation, bad bank

COURSE CONTENTS

Module 1: Introduction

- Overview of course. Participant introductions
- Distinguishing between distressed tenants, property, borrowers and distressed debt
- Regulatory capital implications of deteriorating loan performance
- Deciphering the alphabet soup: RWA, PD, LGD, EAD, EL%, K, ROE, ROCE

Module 2: Identifying Problem Loans.

- Timely detection: policies & procedures for loan

and risk monitoring

- Using reporting to monitor property management, not just covenants.
- Classic early warning signals
- Defining soft and hard default, watch-list and NPL trigger levels

Module 3: Analyzing Distressed Debt

- Pinpointing causes and extrapolating effects in cash flow terms
- Identifying shortcomings in loan terms and

- conditions and/or debt structure
- Identifying shortcomings in the security package, its scope and enforceability
- Unintended consequences
- Aggregating sponsor exposures
- Defining data requirements for workout

Module 4: First Steps

- Enforcing reps & warranties
- Addressing fraud and negligence
- Dealing with asset mismanagement
- Renegotiating repayment terms on covenant breach or failure of asset business plans
- Restricting borrower powers and increasing reporting requirements

Module 5: Debt Restructuring

- Designing standstill and extension terms: disposal targets, cash sweeps, interest roll up.
- Dealing with hedging and hedged risks
- Securing access to rental payments
- Improving asset management: property manager, capex, lease re-gearing, etc.
- Bringing JV partners and/or new lenders into the deal: equity injections and profit sharing
- Structuring mezzanine and rescue capital

Module 6: Workouts

- Asset options: property repositioning,

consensual asset disposals, private or public auction, REO sale of enforced collateral

- Management option: enforcing share pledges to gain control of the borrower and/or collateral.
- Loan options: discount purchase by borrower, loan sale, security enforcement
- Portfolio options: NPL/PL portfolio sales, NPL/PL securitization, vendor financing
- Good bank / Bad bank

Module 7: Reflecting market context

- Bank deleveraging and lending landscape
- Understanding equity drivers for investing in distressed property, companies, and loans
- Forming price expectations based on typical discount levels, return metrics, leverage, and financing availability.

Module 8: Progress monitoring

- Importance of aggregating exposures and tracking resolution progress
- Provisioning, write-offs and recovery
- Re-assessing strategy.
- Feedback loop to origination policy

The End

| COURSE DURATION | DELIVERY MODE | DELEGATE CLASS SIZE | COURSE FEE/PARTICIPANT |
|--|---------------|------------------------|---|
| 3 DAYS | In-Plant | 8 (Guaranteed Minimum) | For quote, please click the following link: - http://demvros.com/contact/ |
| Discount is available for class size above the minimum. Please visit www.demvros.com or call 08056154199 or e-mail for further enquiries. | | | |