

“It's tangible, it's solid, it's beautiful. It's artistic, from my standpoint, and I just love real estate.”

Donald Trump

Commercial Real Estate Finance

Part 2: 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. This course comprises Part 2 of GBRW Learning's two-part programme to help banking professionals build or improve the competitiveness and soundness of their CREF banking business. It can be taken as a stand-alone course, or it can be combined with Part 1, 'Origination and Credit Risk Management'.

The course encourages delegates to develop early warning signals, tag watch list exposures and contextualise 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?*

sharing knowledge, developing skills

OUTLINE

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

WORKSHOP DELIVERY

- This is a two-day workshop totaling **14 hours of delivery time**.
- It comprises 8 hours of instruction, and a further 6 hours dedicated to intensive team work underpinned by case studies and implementation exercises facilitated by the instructor.
- All hand-outs and instruction will be in English.
- Delegates will receive a copy of all the course materials, as well as appropriate checklists, best practice guides, case studies and models.
- The high-levels of participative group work on case studies and interactivity during tutorials strictly limits numbers to **no more than 20 participants**.

TRAINING NEEDS ANALYSIS & POST-TRAINING EVALUATION:

To ensure that participants gain maximum benefit from the course, it is our practice to send a detailed questionnaire to all course participants to ensure we fully understand their specific training needs and objectives. The completed questionnaires are analysed by the course instructor who will tailor the course content and style of delivery to the requirements of the participants. Following completion of the course, participants are asked to measure and assess the effectiveness of the training. The results are collated and reviewed, and the analysis shared directly with the relevant client stakeholders.

OUTLINE

DAY 1

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: Analysing 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

DAY 2

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 securitisation, 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

OUTLINE

TOOLS, MODELS & TEMPLATES

GBRW Learning courses are supplemented with a range of tried-and-tested methodologies, models, tools, and templates refined from best practice. Participants can take these back to the workplace to adapt and apply, and wherever appropriate, to make a tangible improvement to policy and practice in their own bank.

Participants in this course will receive a copy of all the course materials, as well as appropriate checklists, best practice guides, case studies and models.

RELATED TRAINING

This course is Part 2 of GBRW Learning's two-part training programme in Commercial Real Estate Finance. The whole programme comprises

Part 1: **Commercial Real Estate Finance: Origination and Credit Risk Management** (2 days)

Optional add-on to Part 1: **CRE Deal Modelling** (1 day)

Part 2: **Commercial Real Estate Finance: Managing Distressed Debt** (this course – 2 days)

COURSE FACILITATOR



Monica Filkova, CFA
Course Facilitator
GBRW Learning

Monica has more than 17 years of banking and advisory experience in commercial real estate (CRE), loans, structured finance, debt capital markets and corporate finance.

She has advised on non-bank financing, credit risk of stressed CRE debt, bonds and companies, debt restructuring and workout strategies for a bank's NPL portfolio. As a banker at Eurohypo AG (last as Head of Structuring), she closed over €6bn of CRE loans across Europe and executed 10 commercial mortgage backed (CMBS) deals totaling €6.5bn of issuance. She has negotiated complex inter-creditors, conducted risk/return analysis of exit strategies, priced tranching debt and developed origination policy.

Monica has sat on 4 CREFC-Europe committees, which produced industry best practice and origination guidelines for CREF and CMBS. She is a member of CFA UK and volunteers with its Fixed Income Continuing Education group. She also offers personal finance courses through her company E-MONA Learning Ltd.

To find out more about Monica, her credentials and experience, please visit her LinkedIn profile

LinkedIn

<https://uk.linkedin.com/pub/monica-filkova/11/940/9b4>

DETAILS

ABOUT GBRW LEARNING

GBRW Learning is the training and knowledge-sharing arm of GBRW Limited. Founded in London in 1995 by a group of senior bankers GBRW's mission is to provide first-class consulting and training to banks and bankers in Emerging Markets, to the same standard as would be expected in developed markets. From our London headquarters and subsidiary offices in Washington DC and Singapore we have served clients in more than 50 countries in Europe, the Middle East, Africa, Asia and the Caribbean. Our clients include banks and other financial institutions, governments, and economic development agencies and institutions.

Through our training programmes we share the experience and knowledge of our experts with bankers in Emerging Markets, supported by high quality materials and taking advantage of the latest technologies. Our courses are all highly interactive, and make use of carefully designed case studies and simulations.

We offer a range of training topics for banks and financial institutions including:

- Strategy & Management – Formulating, Implementing & Monitoring Strategy
- Risk Management – Credit, Market & Operational Risk
- Human Resources Management
- SME Banking – Customer Relationship Management; Credit Risk Management
- Retail Banking – Customer Relationship Management, Distribution Strategy, Product Management, Credit Risk Management
- Corporate Banking – Customer Relationship Management, Credit Risk Management, Project Finance, Trade Finance
- Commercial Real Estate Finance – Best Practice in Origination and CRM, Managing Distressed CRE Debt
- Governance, Regulation & Compliance
- Financial Markets

For more information, visit our website at:

<http://www.gbrw.com/training>

To discuss your specific requirements email us at:

mail@gbrw.com

TERMS & CONDITIONS

Total fee cost for the on-site delivery of the 2-day course as described is US\$8,800. This is EXCLUSIVE of:

- Flights (discounted business class);
- Accommodation (min. 4★) for every night required off-site;
- Local travel costs and subsistence;
- Venue and equipment hire (if required) and materials production;
- VAT, if applicable

These additional costs will be for the account of the client or, alternatively, we can provide an all-inclusive quote encompassing all expenses if that is more convenient.

GBRW Learning can also host the course at or near our London headquarters for an all-inclusive fee of US\$ 10,560 including VAT. This includes venue and equipment hire but does NOT include the travel, accommodation and subsistence expenses of participants.

A 60% deposit is payable one-month prior to the scheduled course date, with the balance payable immediately following completion of the course.

Discounts are available for multiple course bookings.

For more information or to arrange a booking, please contact Johnny Rizq at:

johnny.rizq@gbrw.com

Note: Terms and Conditions valid until 31st December 2015