



# DANAHARTA'S LOAN RESTRUCTURING PRINCIPLES AND GUIDELINES

All borrowers were given one chance to restructure their loans but the restructuring must comply with Danaharta's published Loan Restructuring Principles and Guidelines. These principles and guidelines were formulated after considering the following objectives:

- To maximise the overall recovery value and return to Danaharta.
- To minimise the involvement of taxpayers' money.
- To ensure fair treatment of all stakeholders.
- To utilise, where appropriate, Danaharta's special powers to leverage and benefit the banking system as a whole.

The purpose of these principles and guidelines was to promote transparency and to provide a basis for borrowers and their advisers to formulate workout proposals. Loan restructuring schemes approved by Danaharta must adhere to these guidelines. Detailed rationales must be given for deviations from these guidelines.

The guidelines were divided into four segments, namely:

- Loan restructuring principles;
- Guidelines for corporate borrowers;
- Guidelines for individual borrowers; and
- Guidelines for guarantors.

## 1. LOAN RESTRUCTURING PRINCIPLES

The following were the loan restructuring principles that had to 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 pre-requisite 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 would give the borrower only one opportunity in implementing a scheme. This was to prevent borrowers from making unnecessary revisions once the scheme was implemented.

### 1.5 Make borrowers work for lenders

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

## 2. GUIDELINES FOR CORPORATE BORROWERS

The following were 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 that commensurated with 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 years.

### 2.5 Benefits of written down assets

Any subsequent value realised in excess of the book value of assets (written down as part of the scheme) should be subject 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 would 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 covenants for monitoring purposes such as:

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

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### 3. GUIDELINES FOR INDIVIDUAL BORROWERS

The following guidelines applied to individual borrowers and should be adhered to:

#### 3.1 Statutory declaration

All individual borrowers are required to give a statutory declaration on their net worth. This requirement is to increase the borrower's 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

The 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 debts 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 action by the borrower to delay recovery action.

#### 3.6 Equity-kicker

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

#### 3.7 Repayment period

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

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

- A monitoring mechanism
- Future borrowings

#### 4. GUIDELINES FOR GUARANTORS

The guidelines applied to guarantors and should be adhered to:

##### 4.1 Substantial and critical guarantors

Where the lending was made based on the standing and/or net worth 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.

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