

CDRC geared for banking problems

Enquiries received from borrowers with RM500mil loans

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KUALA LUMPUR: The revived Credit Debt Restructuring Committee (CDRC) has received preliminary enquiries from three or four borrowers with loans of about RM500mil.

Chairman Datuk Seri Hamidy Hafiz said this was a pre-emptive measure aimed at tackling the problems at source.

"We provide a platform for viable companies to solve their banking problems as the global financial crisis may have eroded their cash flow and, hence, affected their capacity for repayment," he told *StarBiz*.

Hamidy said the priority was to protect employment and ensure that the problems did not spill over to other types of loans.

CDRC will deal with problem bank loans of RM100mil and above, involving multi-banks. Hamidy said that with the big shift in funding to the capital markets, distressed issuers would also be looked into.

So far, enquiries are coming in from export-based companies and those that had ventured overseas, for example, in construction.

Both public and non-public companies were considered, Hamidy said. They must be cash positive and have businesses that can be sustained.

A code of conduct ensures common principles are adhered to and cases can be resolved speedily.

The key restructuring principles are:

● **First loss principle:** The losses incurred by an eligible debtor shall always be borne firstly by its ordinary shareholders, and followed by any preference shareholders and providers of subordinated loans or



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advances.

● **Post-restructuring level of borrowing:** This shall be set at a level that is commensurate with the debt-servicing capability of the eligible debtor, taking into account, among others, its expected future cash flows and the value of its assets.

● **Shortfall to creditors:** Any shortfall borne by participating institutions of an eligible debtor shall be sufficiently compensated by way of issuance of equity, equity hybrids or any other type of deferred instruments.

● **Ranking:** The debt-restructuring scheme shall recognise and acknowledge the existing priority and status of claims of the creditors of an eligible debtor at the time of application or referral of such eligible debtor to the CDRC and there shall be no changes in respect of the prevailing ranking

and status of creditors.

● **New monies:** Any claims by creditors of an eligible debtor in respect of new monies provided by its creditors, if any, to sustain the viability of the business shall be accorded a senior ranking and status to the existing debts of the eligible debtor.

● **Operating accounts:** Where appropriate, there should be consolidation of the operating accounts of the eligible debtor, with the aim of providing transparency to its creditors of its actual cash flows.

"CDRC is not a shelter for companies with problem loans to get haircuts," Hamidy said, adding that banks need not fear that it would be "a haircut centre."

"But banks need to make sacrifices as penalties and interest charges may have to be waived," he said.

Overall, the CDRC helps provide speed of resolution and a platform for mediation. "Negotiating to restructure a large loan involving a few banks can be a headache for the affected company. The problem arises when the banks refuse to change their terms and conditions in line with the change of the cash flow of the company concerned," said Hamidy.

Banks can incur high costs trying to resolve some of these outstanding loans. By turning to the CDRC, banks can avoid a situation of non-performing loans while the cost of running the CDRC, currently manned by five experienced staff, are borne by Bank Negara.

Cases that are already under liquidation or receivership are not handled by the CDRC.

The approach is firm and transparent. "We aim to remove conflicts among creditors and there will be no side deals," said Hamidy.

Every account is scrutinised by an eight-member creditors committee that comprises, among others, the borrowers and lenders by classes (secured and unsecured). The committee is chaired by an independent party.

Strict rules pertaining to attendance are kept. In the case of lenders, top management must attend creditors' meetings and they can be removed from the committee if they fail to attend twice.

"We don't want companies to fail because of banking issues," said Hamidy. "We also want to avoid a situation where banks, in looking after their bottom lines, are also blamed for the current funding issues faced by some of these affected companies."