

04/10/2019

# IF (not “when”) the Deal Goes Bad

# Why DO loans go bad?

## On the part of the lender:

- Making a “bad” lending decision
- Not checking what the customer has said is true e.g. income Vs. expenditure
- Not following the money
- Incorrectly completing paperwork (mis-spelling a borrower’s name on a UCC)
- Poorly monitoring the loan

## On the part of the borrower:

- They spent the money on things other than what it was lent for
- They provided misleading information
- They had overly optimistic forecasts
- They were under-capitalized
- They were un-prepared to be a successful business owner
- A significant and distracting life event occurs

# Regular Servicing

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Keeping in regular contact with a borrower is VERY important!!!!

At the base minimum, it is important to:

- Conduct a site visit / meet at the business reasonably regularly
- Collect and analyze tax returns
- Ensure insurance is current, property taxes paid, other taxes are paid, and, that UCC's are updated when they expire, etc.

# Risk Rating Loans

Every RLF loan that you fund should be regularly reviewed and “risk rated” using some variation of the following system.

Class	Designation	Characteristics
1	Pass	Low, Low/Medium and Medium risk loans
2	Special Mention	High/Medium risk loans
3	Substandard	High risk loans – full repayment expected
4	Doubtful	High risk – full payment possible
5	Loss	High risk – full payment unlikely

# Risk Rating Loans – Credit Scores

Search:

YEAR	QUARTER	EXPERIAN SCORE	EXPERIAN RISK CLASS	DATE	SBPS RATING	
2017	3rd	999.00	5 - Unrated	12/1/2017	160-179 (Medium Risk)	Import,SE
2017	2nd	999.00	5 - Unrated	8/17/2017	140-159 (High-Medium Risk)	Import,SE
2017	1st	999.00	5 - Unrated	4/19/2017		Import,SE
2016	4th	999.00	5 - Unrated	1/17/2017		Import
2016	3rd	23.00	4 - Med/High Risk	10/20/2016		Auto impo
2016	2nd	22.00	4 - Med/High Risk	7/29/2016		Auto impo
2016	1st	51.00	2 - Low/Med Risk	4/21/2016		Import

# Risk Rating Loans – Other Metrics

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- Negative Financial Trends
- Delinquent Taxes
- Non-sufficient Funds (multiple instances)
- Change in Management
- On Deferral
- Negative Publicity
- Lawsuits
- Nonresponsive
- Rude / Being a Jerk

# Priority Servicing

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Once a loan is identified as challenged, keeping in even more frequent contact with a borrower is even more important!!!!

This may involve:

- More regular site visits
- More frequent reviews and collection of financial statements
- Active on-line searching for references or critical reviews of your borrower.

# A Non Performing Loan (08/17 – 09/17)

EMPLOYEE	TYPE	COMMENTS
rley	Misc.	loan details from diana...Hi Beth,
rley	Misc.	email to diana to document file...I am emailing confirmation that the September 1, 2017 payment for Winking Girl, loan ILP1-8030 was not drafted for September 1. She
rley	Misc.	follow up email to julie...Good morning. We wanted to touch base and check on the progress of providing the additional financial information requested. Please provide an
rley	Misc.	gave hard copy with highlights of what needs to be modified on forbearance agmt to amanda
rley	Misc.	email response from angela at ref...Good Morning, Beth, CEF doesn't give reprieves nor deferred payments; however, I do give reduced payments – unfortunately, she said
rley	Misc.	emailed amanda forbearance agmt template for review
rley	Misc.	email to julie...Good afternoon. I wanted to touch base after our meeting last week. We are working on the temporary forbearance on your loan.
rley	Misc.	discussed with Amanda, agree that we will mirror CEF terms, i am reaching out to julie as well as requesting contact at cef to reach out to as well, have write up mostly done
rley	Misc.	left julie msg 414pm and followed up with email requesting meeting next tuesday
rley	Misc.	tried julie 1145, will try again later today



# A Non Performing Loan (09/17 - 12/17)

EMPLOYEE	TYPE	COMMENTS
ey	Misc.	winking girl has offered 11k total to CEF and CLS, julie called today, said she recd email from bob that cef will take all 11k, discussed potential oic with julie for small
ey	Misc.	working with julie and attorney to arrive at offer, needs to close by 12/20 which is buyers deadline, i have been speaking with amanda
ey	Misc.	email to diana...And not sure if I shared this with you...I just found out on Friday...Winking Girl is no longer in business. Amanda will be communicating this but,
ey	Misc.	email to angela at cef...Good afternoon. I believe you were to have a call with Julie on Friday. It is my understanding she will no longer be operating the business. It is our
ey	Misc.	spoke to Amanda, she is in agreement that we charge off loan balance now and look at doing oic once julie has a job and income, julie is currently searching for a job,
ey	Misc.	julie called to say she is closing the business, between cls, cef and whole foods she owes 118k, she does not have a job yet, told her we would discuss oic after i discuss
nen	Payment Tracking	Received \$200 check for Oct and Nov partial interest payments.
ey	Misc.	Julie's response - Sorry for delay - I've been traveling. I think I thought it was going to be Electronically withdrawn. Sorry about that! ----asked that she mail check for 3
ey	Misc.	email to julie...Good morning. I wanted to touch base with you as we never received the \$100 payment for October. Is it possible to mail that amount with the \$100
ey	Misc.	emailed amanda suggested verbiage on forbearance agmt

# A Non Performing Loan (12/17 - 02/18)

EMPLOYEE	TYPE	COMMENTS
ey	Misc.	winking girl has offered 11k total to CEF and CLS, julie called today, said she recd email from bob that cef will take all 11k, discussed potential oic with julie for small
ey	Misc.	working with julie and attorney to arrive at offer, needs to close by 12/20 which is buyers deadline, i have been speaking with amanda
ey	Misc.	email to diana...And not sure if I shared this with you...I just found out on Friday...Winking Girl is no longer in business. Amanda will be communicating this but,
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# A Non Performing Loan - Resolution

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January 18, 2018

Dear Ms. :

In order to finalize the sale, we are providing the information requested. The principal balance is \$49,008.10. A fifty percent settlement offer will be accepted with the accepted settlement amount being \$24,504.05.

Please have funds wired in that amount and provide a copy of the wire confirmation once the wire is initiated. Thank you in advance for your prompt attention to this matter.

Sincerely,



# Liquidation Policy (1 of 2)

## A. Liquidation Reports

Upon default, and provided the terms of a Deferral or Workout Agreement cannot be reached in a timely manner, Colorado Lending Source will prepare a Liquidation Plan. To assist with the analysis of this plan, a number of reports are ordered, in addition to the appraisal and/or valuation which is previously addressed, and are as follows:

- Borrower and/or Obligor Assets Search
- Borrower and/or Obligor Credit Report
- Lender Payment History
- Property Tax Payment Verification
- Other Reports, if applicable and necessary

## B. Liquidation Activities

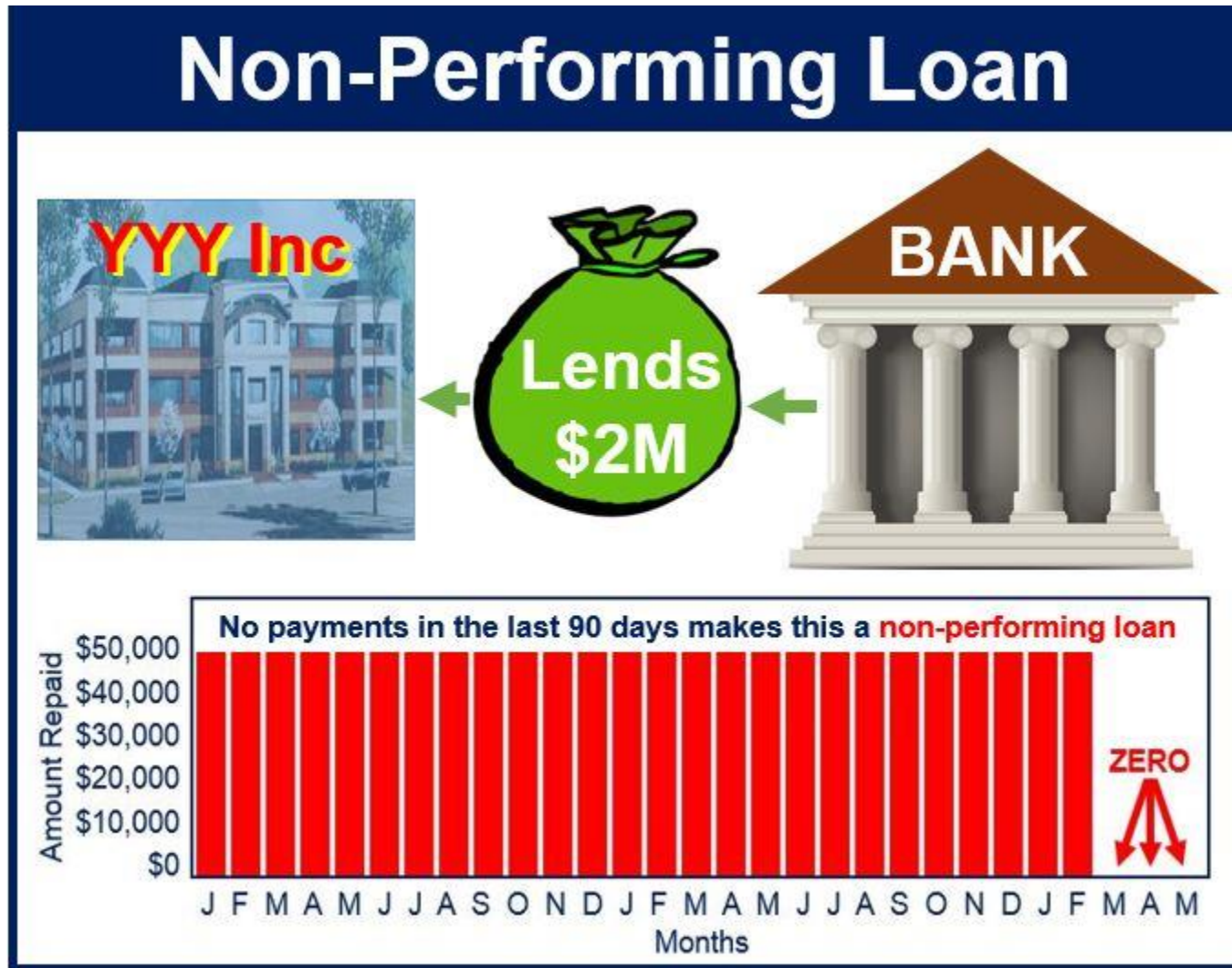
A variety of activities can occur after a loan defaults. Some common activities are as follows:

- **Workout:** A workout is intended as an alternative recovery method. It is most typically used for a business that is still in operation and will likely succeed if the payment amount is reduced from its current level. The workout plan calls for the entire loan balance to be paid in full. No portion of the loan will be forgiven or written off. If sold on the Secondary Market, to implement a workout payment plan the original loan must be repurchased by the SBA or Colorado Lending Source.

# Liquidation Policy (2 of 2)

- **Assumption:** A loan may be assumed by a willing and qualified buyer.
- **Litigation:** Litigation is most commonly used when there are business or personal assets to pursue that support a corporate or personal guaranty. A litigation plan is required.
- **Sale of the Note:** In lieu of alternative collection methods against the collateral and/or obligors, or to maximize recovery in the most efficient manner, Colorado Lending Source may approve the sale of the note to a third party. If a note is sold, relinquishes all rights to collateral and any right to collect any further from the borrower and/or guarantors to the note buyer. Thus, this action requires prior SBA approval.
- **Short Sale:** A short sale occurs when a property is sold for less than the total value of all the liens against it. Colorado Lending Source may accept less than the full principal, interest, and expenses owed for the release of the collateral.
- **Foreclosure Redemption of Property at Foreclosure Sale:** In order to maximize recovery on an oan, certain methods of liquidation may result in the acquisition of real property collateral (Real Estate Owned or REO) by SBA.
- **Sale of the Property:** Acquired collateral will be sold via whatever method will maximize recovery on the loan in the shortest amount of time.
- **Auction:** The auction of real estate, furniture, fixtures, and equipment, inventory or other assets can be used as an additional liquidation method to obtain a recovery.
- **Lease of Property:** Acquired collateral may be leased if the sale of the property is not sold after a reasonable amount of time.
- **Offer In Compromise (OIC):** An offer in compromise is an offer from the borrower or obligor for an amount less than the full amount of the amounts due under the Note, Deferral Agreement or Workout Agreement. It is intended to be used as an alternative to a referral to US Treasury for collection (see below).

# YOUR Non Performing Loan Examples ...



A photograph of two men in a workshop or office setting. The man on the left is wearing a grey and maroon zip-up jacket and dark jeans. The man on the right is wearing a grey t-shirt, dark pants, a blue and red baseball cap, and glasses. They are both smiling and looking at a small object held by the man on the right. In the background, there are workbenches, a computer monitor, and a poster on the wall. In the foreground, there is a large roll of material on a table with some printed items.

# QUESTIONS?

Mike O'Donnell