Non performing loans (NPL) resolution

Hamidy Hafiz
Crisis model

Danamodal
Restructuring Bank Capital

Corporate Debt Restructuring Committee
Mediate to rehabilitate large corporate loans

Banking Institutions
Sells NPLs, Recapitalised and Consolidate to 10 Anchor Banks

Danaharta
Remove NPLs (voluntary and market driven)
Malaysia’s Response To The Crisis

- Pre-emptive measure

- Economy went into recession from a position of strength
  - RWCAR at 12%
  - Net NPL at 2.2%

- Distresses banking sector; not banking crisis

- Consultation with private sector

- Swift set-up of special purpose vehicles

- Stabilised banking sector helped accelerate macro economic recovery
Malaysian Bank Restructuring Plan

The plan adopted a pre-emptive strategy on several fronts

Bank Restructuring Plan

Corporate Debt Restructuring Committee
To address the deterioration of the corporate sector

Danamodal (Bank Recap Agency)
To address capital erosion and facilitate consolidation of banking institutions

Danaharta (AMC)
To address rising NPLs

Consolidation of the financial institutions
To increase the resilience of the industry
AMC’s – In General

- Most AMCs are specifically designed to suit national situation, thus the organisation needs to be practical and solution-oriented.

- Usually set up in answer to collapse of banking institutions or because of threat of banking system collapse e.g. RTC, Securum.

- Danaharta is a pre-emptive action recommended by the National Economic Action council to avert a banking crisis.

- Important distinction because Danaharta adopts market-driven approach – no compulsory powers of acquisition.
The AMC Continuum

- **Types of AMCs**

- Neither a rapid disposition agency nor a warehouse agency

- Because large portions of NPLs are structural thus requiring resolution of underlying assets rather than loans

- The number of accounts > RM5million is small (approximately 3,000)
Pengurusan Danaharta Nasional Berhad
National Asset Management Company

OBJECTIVES

❖ Remove non-performing loan (NPL) distractions
❖ Maximise recovery value of acquired assets

FUNDAMENTAL PRINCIPLES

❖ System-wide carve-out of NPLs
❖ Market Driven approach
❖ True asset management company
Strategic Approach

❖ Speed
❖ Governance
❖ Market driven
❖ Private Sector
❖ Introduction of new powers (centralised)
❖ Clear recovery strategies
❖ Carrot / stick approach
❖ Communication
GOVERNANCE

BOARD LEVEL

(2 Levels – Board & Management)

GOVERNANCE

BOARD

(Total 9 members)

2 International Community (Legislation)

7 Local Representatives

Central Bank (1)

Local Bank (1)

Private Sector (3)

AMC MD (1)

MOF (1)
GOVERNANCE

MANAGEMENT LEVEL

❖ All Senior Management required to make annual assets declaration

❖ All staff not allowed to participate/transact in any AMC asset disposal
Danaharta’s progress through phases

- **Establishment**
  - Objective
  - Organisation
  - Funding
  - Legislation
  - Disclosure
  - Programmes
  - Professional
  - Advisers

- **Acquisition**
  - Targets
  - Guidelines
  - Methodology
  - Valuation

- **Management**
  - Approach
  - Loan Management
    - Restructuring
    - Working capital support
  - Asset Management
    - Rationalisation
    - Foreclosure
    - Operations & funding support

Timeline:
- June ‘98
- September ‘98
- June ‘99
- onwards
Critical Success Factors

❖ Political will
❖ Legal powers and strong moral persuasion
❖ Private sector driven
❖ Processes are thought out and clearly communicated
❖ Consolidated before liberalisation
❖ Resolution rather than disposal
❖ Concentrate on weak banks, larger NPLs or borrowers and realistic returns
❖ International precedents
Thank You

Malaysia