



# Troubled Loan Workouts: A Reference Guide

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## Introduction

What makes a loan workout successful? Each stakeholder in a company will have a different answer to this question depending upon its position within the capital structure, the value of the company's assets relative to its obligations, and the depth of the financial and operational difficulties the company faces.

For lenders, the paramount concern once the loan enters workout is to avoid loss of principal. For suppliers, collection of debts is important. However, maintaining a continuing, profitable relationship with a customer can be more important. Owner/shareholders obviously do not want to lose invested funds or lose control of "their" company. Thus, they typically will be more interested in working to turn around a troubled business. Often lenders perceive these strategies as "gambling" with the bank's money and use personal guarantees of loans and the threat of losing personal wealth or personal bankruptcy to try to direct the course of a workout.

Regardless of their position and risk appetite, when a loan enters workout, each of these stakeholders is concerned about maximizing value recoverable to them. Therefore, much of what is considered a successful workout is the result of a negotiated distribution of value whether as a result of a refinancing, a going concern sale, or liquidation.

The authors have developed this reference guide to help the reader understand the issues that arise in workouts and the workout process itself. It has been written primarily from the perspective of the lender because of the dominant role that the lender plays in every workout. However, we hope that non-lender readers find this perspective to be useful.

The workout process requires that many critical issues be dealt with in a time-compressed and emotionally charged environment. In addition, workouts involve confronting and resolving many complex legal, personal and business issues that require specialized professional advice. This guide cannot provide complete coverage of all issues related to a workout nor does it endeavor to provide legal or business advice. The reader should consult an attorney, accountant, certified turnaround professional or other appropriately qualified professional before taking any actions when dealing with a workout situation.