

5.0 Rehabilitation Department

5.1 Introduction

Rehabilitation Department in SME Bank is a department under purview of Supervision. The main objective of the department is **to manage Non Performing Loans (NPLs) in order to improve collection and to reduce Non Performing Loans of the Bank**. It is in line with the objective of Supervision as it is to ensure the Bank's Non Performing Loans (NPLs) is at the minimal level (industry norm). The department needs to maximize the collection of income from project recovery process; restructuring and rescheduling.

Therefore the department is essential to the Bank as in any situation its task is to recover debts for the Bank. The department also act as advisory in term of proposing and discussing the best solution for the customers to repay their debts/loans. The department provides avenue to understand customers who have genuine financial problems and are struggling in fulfilling their obligations to the Bank. Hence, the department used rational thinking as well as being transparent and straightforward to help customers to pay for their loans.

5.2 Business Activities

Rehabilitation department main business activities are:-

- i) To provide efficient and effective rehabilitation process on the Non Performing Loans (NPLs).**
- ii) To propose and undertake actions plans to enhance the loan recovery process by providing feasible and workable rehabilitation plans.**
- iii) To propose for foreclosure or liquidation of NPLs after all avenues or resources have been exhausted for rehabilitation process.**
- iv) To liase and act as the middle man between external parties such as consultant, bankers, suppliers/creditors and solicitors; to facilitate rehabilitation plans and strategies.**
- v) To help the Bank reduces its provision on bad debts and write off loans by improving the quality of collaterals and/or security coverage of respective loans for rehabilitation projects/cases.**

5.3 Organisation Structure

Rehabilitation Department is headed by Manager, Tn. Hj. Shahidin Hamzah, four Assistant Managers and three clerical staff. The Head of Rehabilitation task is to ensure the administration of the project rehabilitation to be properly managed. This to ensure all of NPLs accounts under rehabilitation process will contribute maximum income to the Bank. The Head also responsible to decide on the type of rehabilitation proposal to be approve to NPLs accounts with potential to be turn around or to rehab. He is also responsible to prepare foreclose report for NPLs accounts which is not viable or not suitable to rehab. Clerical staffs are responsible on administration works and also assisting Officer in Charge in preparing documentations.

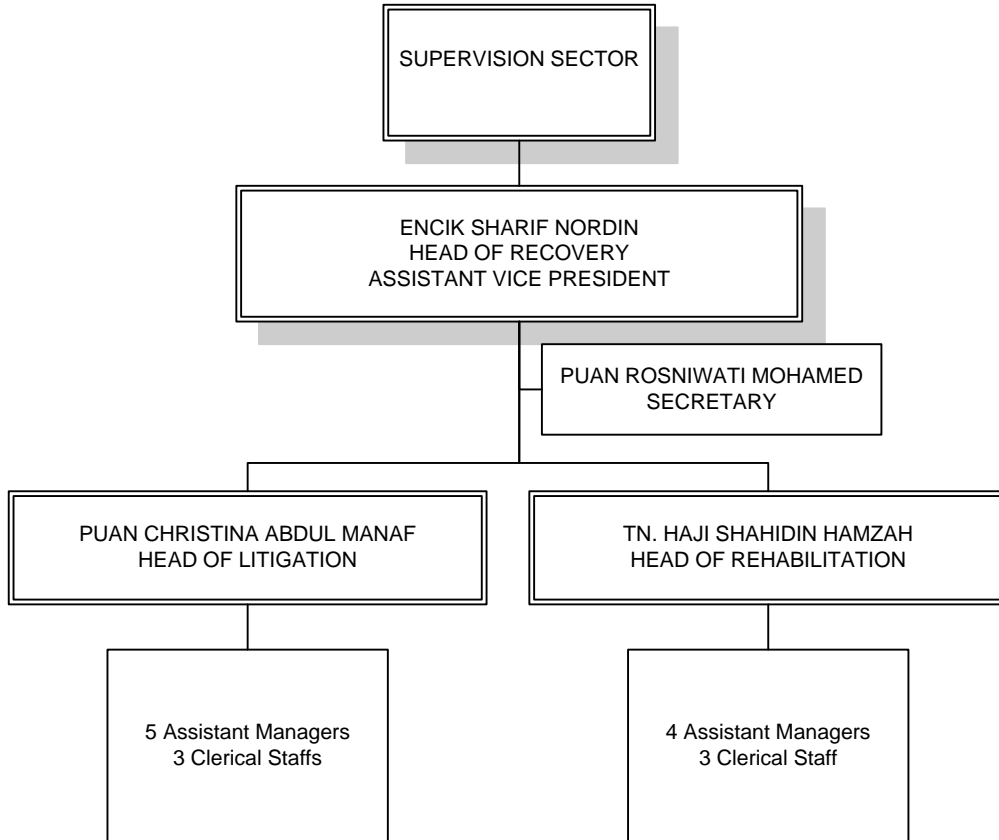


Figure 1: Supervision Sector Organization Chart

Assistant Managers or Office in Charge is responsible in preparing and conducting diagnostic report based on problems and issues identified by the branches on particular NPLs accounts. The officer in charge also needs to assess the entire project on whether the project can be rehab or turnaround by proposing a rehabilitation proposal.

Each of the staff **(Assistant Managers)** key functions is as below:-

- i) To plan, co-ordinate and supervise the rehabilitation process of all Non Performing Loans (NPLs)
- ii) To formulate and propose a result oriented rehabilitation strategies for each of the NPLs accounts.
- iii) To initiates loans rehabilitations actions for NPLs accounts (Recovery, Restructuring and Negotiated Settlement)

The current working flow/task in the department is guided by **these procedures**:-

- i) The officer in charge (Assistant Manager) responsible in conducting or diagnose problems identified by the branch on the transferred NPLs account. The task involves are getting information on the directorship/shareholdings, to conduct a site visit to respective company / factory and also to secure and obtain static information on the said account.
- ii) The officer in charge also need to assess thoroughly on the possibility of the project turnaround by studying on the establishment of the company niche market, the commitment of the involved directors of the company based on daily operations, to decide on the company's solvency and to identify and study the maximum utilization of company's productive assets such as machineries.
- iii) Officer in Charge is responsible in proposing a rehabilitation action after both of the above procedures are fulfilled. The rehabilitation action involved a negotiation with the customers or new investors for equity take over (if any), the officer also need to discuss with the immediate supervisor (Head of Rehabilitation Department) pertaining the matters. A discussion with selected bankers is

conducted in the event of any Scheme of Arrangement (SOA) to settle the NPLs account.

- iv) The next action is to implement the turnaround plans of the NPLs account. The plans are mainly on the Loan Restructuring, Loan Reschedule, Additional Loans and New Investor (Equity take/buy over). The action is to issues the letter of offer, to prepare all security documentation, to execute loan disbursement for additional loans and also to refund of payment for Revolving Working Capital loan (RWC).
- v) After the implementation of turnaround plans, the Officer in Charge need to do a Project Supervision by doing regular follow – up visit and report to ensure the customers is following the plan and to avoid miscommunication in payment schedules. A close monitoring on loan repayment is done by the officer to avoid late and outstanding payment reoccurred by the customers.

5.4 Guidelines in Rehabilitation Process

Below are few guidelines which are used in the Rehabilitation Process, according to the department: - (not limited to)

- Rescheduled the loan repayment process
- To provide new financing for new machineries; it is to support and assist the problematic companies to restart its operation.
- To provides and assist for new financing for the purpose of paying back the outstanding loans. The concept is similar to Small Debt Resolution Scheme (SDRC) by Bank Negara.
- To convert the balance loans or outstanding loans to equity or preferred shares. As a result the Bank will have ownership on the company.
- Disposal of any valuable assets (productive assets) to fully or part paid the outstanding loans (debts).
- To reduce the loans interest to a reasonable rate or to waive part of the debts under the restructuring process.
- Ask for additional guarantee such as Assignment of Payment / Proceeds to ensure that the company fulfills its obligation to pay the loans.

- To appoint external consultants to evaluate and analysis projects or accounts which are still viable and have the recovery potential.
- To use a negotiated settlement to fully settle the accounts/debts.
- To repurchase the assets and leased to the company. It is to restructures its debts and also to ensure the problematic company as well as new company to operates.

Based on the above guidelines, some of them are regularly used by the department and some are left behind due to some problems. **Bullet 1, 2, 3, 4, 6, 7 and 9** are normally practiced by the department. **Bullet 5, 8 and 10** are rarely used because of shortage of manpower, dedicated and proper process flow and lack of expertise to handle it. The implementation of these three guidelines will be discussed under the recommendation of a new process flow of Rehabilitation Department. These three guidelines will be incorporated inside the new mechanism called **Collateral Management Unit**, which is to be attached and operates in a new process flow for the department.

5.5 Current Strategies and Action Plans

Current target, strategies and action plan for the department are to achieve a specific target recovery income set by the Bank. In order to achieve that few strategies had been set for the department, the strategies are as follows:-

- **To maximize and expedite the collection** of Rehabilitation cases from the restructuring and rescheduling process for NPLs accounts.
- **To expedite the Rehabilitation Process** of NPLs accounts and converts or turns these accounts into an Active and Performing Account.

To materialize these strategies, action plans had been taken up to ensure that maximizing collection from NPLs and turning these accounts to performing accounts is a successful strategy. According to the Head of Rehabilitation, the action plan of the department is as follows:-

- Department to set up a working group to discuss, monitor and expedite the collection of write off Loans and NPLs. This group will be chaired by the Head of Supervision Sector (Vice President 1)

- The department to concentrate on Top 20 files accounts in Rehabilitation Portfolio. These top 20 files are mainly from the potential Rehabilitation Accounts.
- To conduct and prepare a monthly report to Senior Management Committee of the Bank on the collection and rehabilitation activities. This is for proper monitoring process by the senior management and also to ensure all record and data are up to date.

The department plays a major role in ensuring all the debts are collected from NPLs account. Extreme actions such as filing bankruptcy charge, seizing assets and properties are the last resort by the department. The department always opens for discussion for other solutions for customers who still unable to make payment after the rehabilitation plan. Only if the customer refuses to make payment then necessary arrangements or actions shall be taken on the customer. Default in payment would give bad credit rating on customers and the consequences are major as customers would not be able to apply for future loans or any other matters pertaining financing. Therefore, it is the department's responsibility to ensure all collection or recoveries from NPLs account are on schedule and prompt.