

Monitor, Downgrade, Rehab, Move or Foreclose?

All cases assume an initial loan of \$750,000 extended two years ago secured by either real estate or equipment. Until recently, there have been no late payments and only random overdrafts.

Case 1 – Dr. Brighter, LLC

Dr. Brighter is a dentist you have been banking since she went on her own four years ago. She has six years' of previous experience. The loan was to upgrade her facility and equipment with the anticipation of bringing on another partner. That partner came on board 8 months ago.

Upon reviewing your portfolio's trial balance you notice Brighter's loan is 15 days past due. This is the third time in the past six months. The past two times she was delinquent you were able to get checks for the payments before it was more than 60 days past due. You require only annual financial statements and those are still four months away.

Case 2 – Safety Security Systems, Inc.

Safety Security, a ten year old firm engaged in residential and commercial security systems, used the loan proceeds to update their fleet of vehicles and significantly increase the amount of inventory of their high tech products.

You have begun to gather information for the annual review. Their most recent financial statement show the first drop in sales in five years with a significant lost for the fiscal year just ended. The loss, along with owner dividends, has caused a violation of your debt to net worth covenant. In addition, all their turn ratios slowed for the year. In talking with the owner he said the sales drop was due to the loss of a key contract and the slowing of new home construction in the area. The firm had not downsized employees, or expenses, when work fell off. In reviewing his just completed PFS, you notice an IRS work out plan in place for past due taxes.

Case 3 – ABC Manufacturing, Inc.

ABC is a \$3MM manufacturer of parts for specialized wheelchairs, scooters and hospital beds. They sell strictly to the OEM. The loan proceeds were used to purchase equipment utilized in the manufacturing process. In addition to the term loan, you provide a \$250,000 line of credit which currently has a zero balance and had a high usage of \$175,000 last year.

The company is coming off the third year in a row of minor sale increases but remains profitable. The two owners continue to show very strong personal financial statements with excellent liquidity. You just came from a lunch with the company's auditors and CFO. They informed you they have just been named as part of a \$150,000 lawsuit from a consumer whose wheelchair did not properly function causing an accident. The CFO believes their part had nothing to do with the malfunction but it is still uncertain at this time as it is early in the litigation process.