

Why is my account being transferred to Special Loans?

All businesses ride economic waves of growth. Some are able to read leading indicators that are poised to negatively impact their businesses. These businesses quickly implement defensive strategies to minimize disruption and, although they may experience a momentary pause, tend to get back on the track of growth within a reasonable period of time.

Others, for a variety of reasons, miss opportunities to implement anticipatory strategies or corrective actions as their businesses begin a downward curve.

When this happens, a company's lender may transfer their account management from their existing relationship manager to the Special Loans group. Most large lenders have a Special Loans group, although different institutions may use different nomenclature.



Why is an account transferred to Special Loans?

Lenders operate under specific governance policies and procedures, where risk ratings are integral in determining whether or not an account is recommended for transfer to Special Loans. If a customer begins experiencing weakening or poor financial performance and/or breaches financial and non-financial lending covenants, the lending side in most cases will try to assist their customer. Depending on the attributes of their customer (is there a viable business, is there available financing and is there good management), macro and micro economics, industry trends and other circumstances, the lending side may choose to transfer the account to Special Loans.



What happens once an account is in Special Loans?

Personnel in Special Loans are specifically trained to deal with financially challenged customers. Unless the account was transferred due to fraudulent behaviour of the company or its principals, or it is clear that the business is no longer viable, the role of Special Loans is typically to quickly assess the issues and work with their customer in implementing a rehabilitation strategy. The ultimate goal is to eventually transfer the account back to their traditional relationship manager, if they are able to do so.



Because they are financially challenged, there will be a greater onus on the customer to increase reporting, perhaps in a format and frequency to which they would not normally be accustomed. Not only will financial and operational reporting and metrics be measured, but there will be increased focus on weekly cash flow reporting, likely on a 13-week rolling basis. The customer will also often have to develop a “workout” plan, which addresses realistic strategies to increase sales or margins and, if necessary, rationalize costs. In more serious situations, additional capital or security may be required to be injected or provided by the shareholders and/or guarantors of the indebtedness to the lender. It is important to be transparent and take the requests of the Special Loans group seriously.

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How long will an account be in Special Loans?

Each case is different, much like each company is unique. After your account is transferred to Special Loans, you’ll likely be eager to have it transferred back to the lending side as quickly as possible. Depending on the situation, the lender may require the borrower to demonstrate consistent financial performance compared to the “workout” plan before it will consider transferring the account out of Special Loans.

While the role of Special Loans is rehabilitation, one of its other roles is to protect the lender while preserving enterprise and collateral value. Accordingly, it is important for customers to accept and understand the situation, which will enable open and honest communication and cooperation among the customer and the lender. This partnership effort will undoubtedly lead to a smoother and quicker route back to the lending side.

It is important for a borrower to consult legal and financial advisors, as the world of being in Special Loans is a specialized area of practice. If you require some guidance on communicating with your lender’s Special Loans group, or need assistance preparing the detailed financial information your lender is requesting, we’re here to help.

