rma by ProSight

Chapter Leaders Conference

Winning the Workout

How Top Bankers Succeed in Difficult Situations rma by ProSight

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Winning the Workout

Crash Course in Controlling Challenging Commercial Credits

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The Reality of Distress

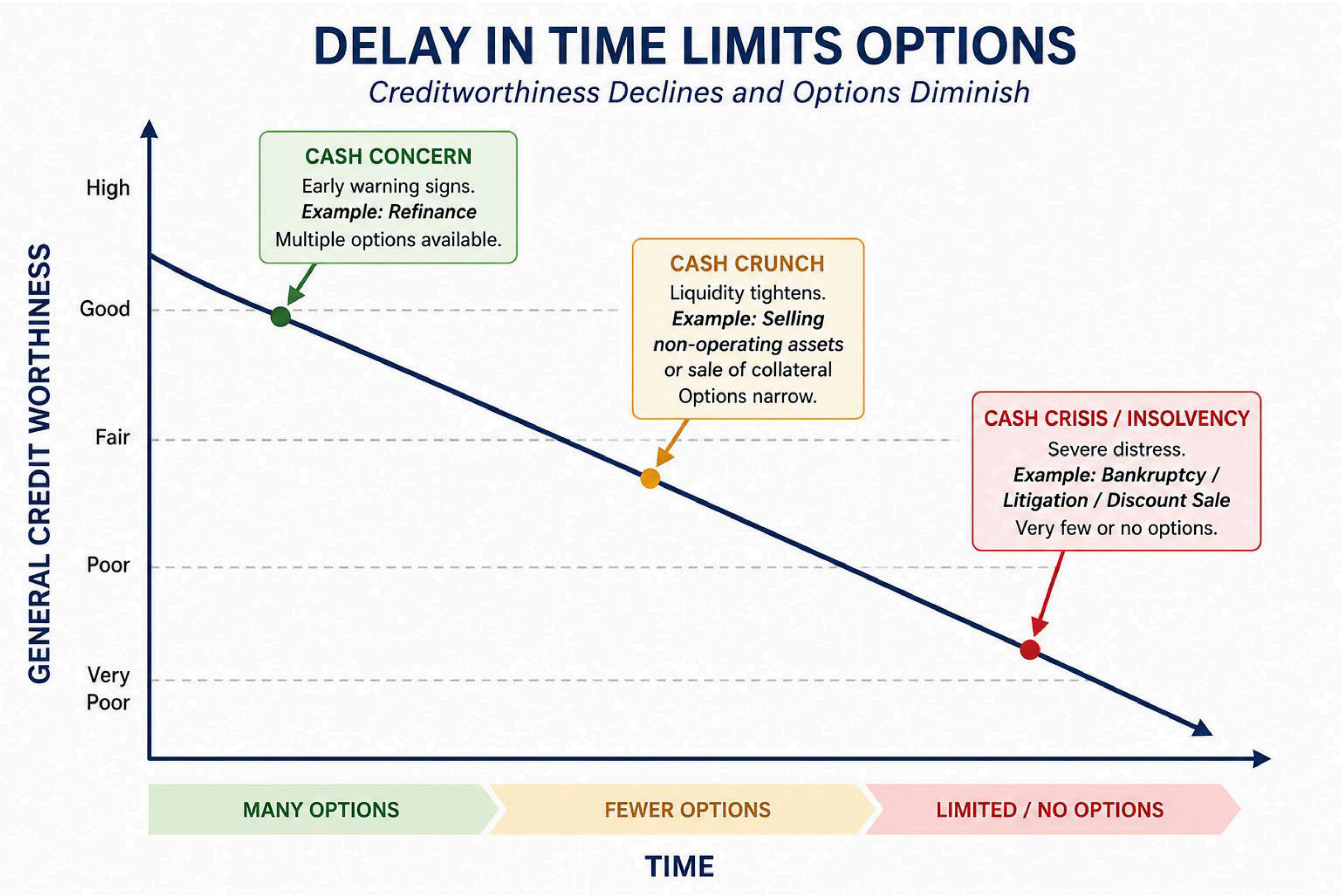
- Problems originate from
  - Macro factors
  - Failure of Five C's of Credit
  - Lack of Due Diligence
  - Bank errors
- Workout requires enterprise-wide surveillance and support
- Human behavior drives outcomes
  - 50% Finance / 50% Legal / 50% Psychology

Why Workout Matters

- Preserve Capital, Mitigate Risk, Limit Losses
- Insurance for bank's portfolio
- Economic uncertainty increasing distress
  - CRE, macro factors, Ai impacts
- Define reputations, relationships, careers
    - Good times create lenders. Bad times create Bankers.

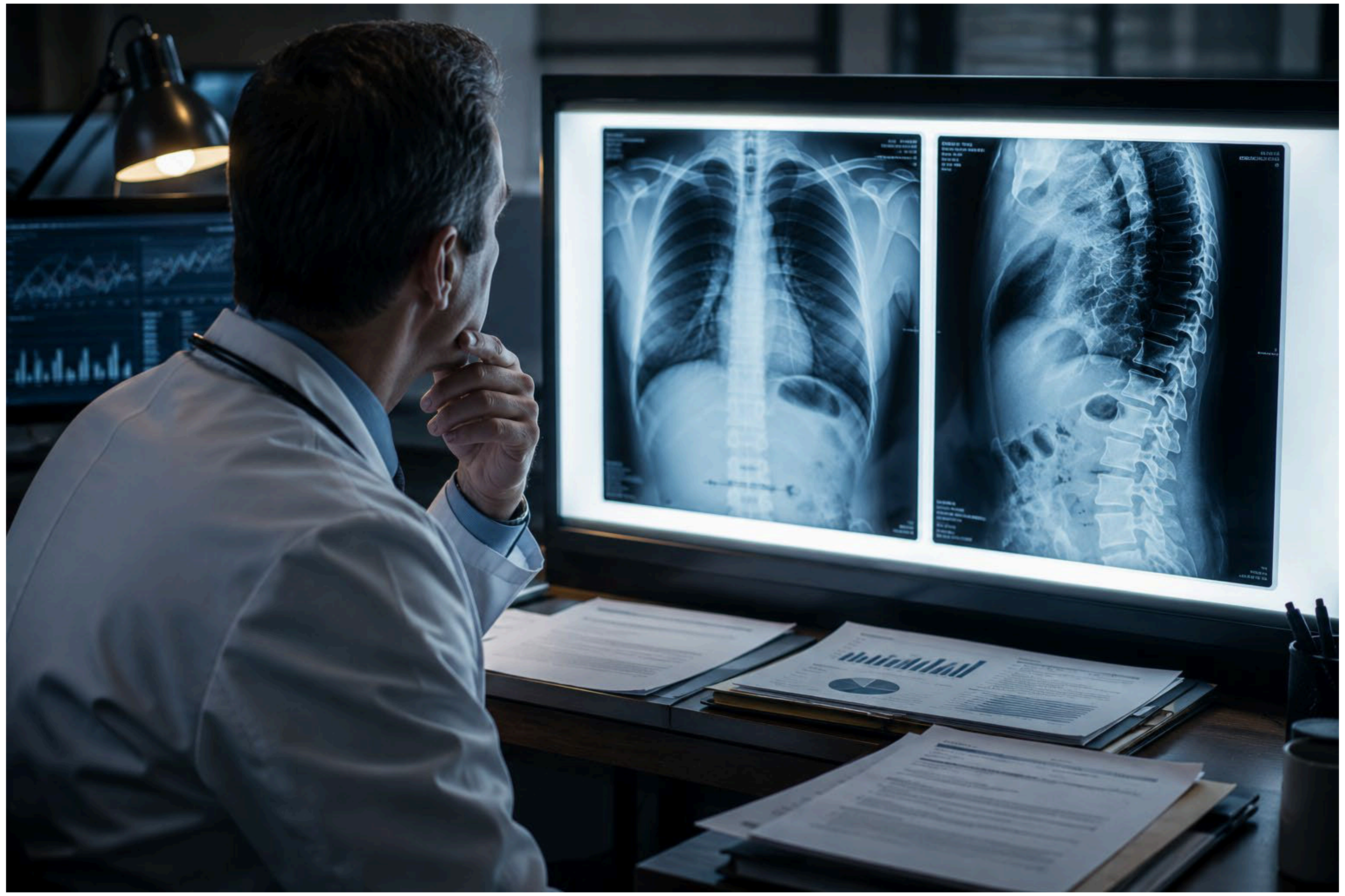
Act Early

- Identify Early Warning Signs
- Leverage defaults
- Delay Destroys Value
  - First loss is often best loss
  - Especially if other creditors
    - MCA's



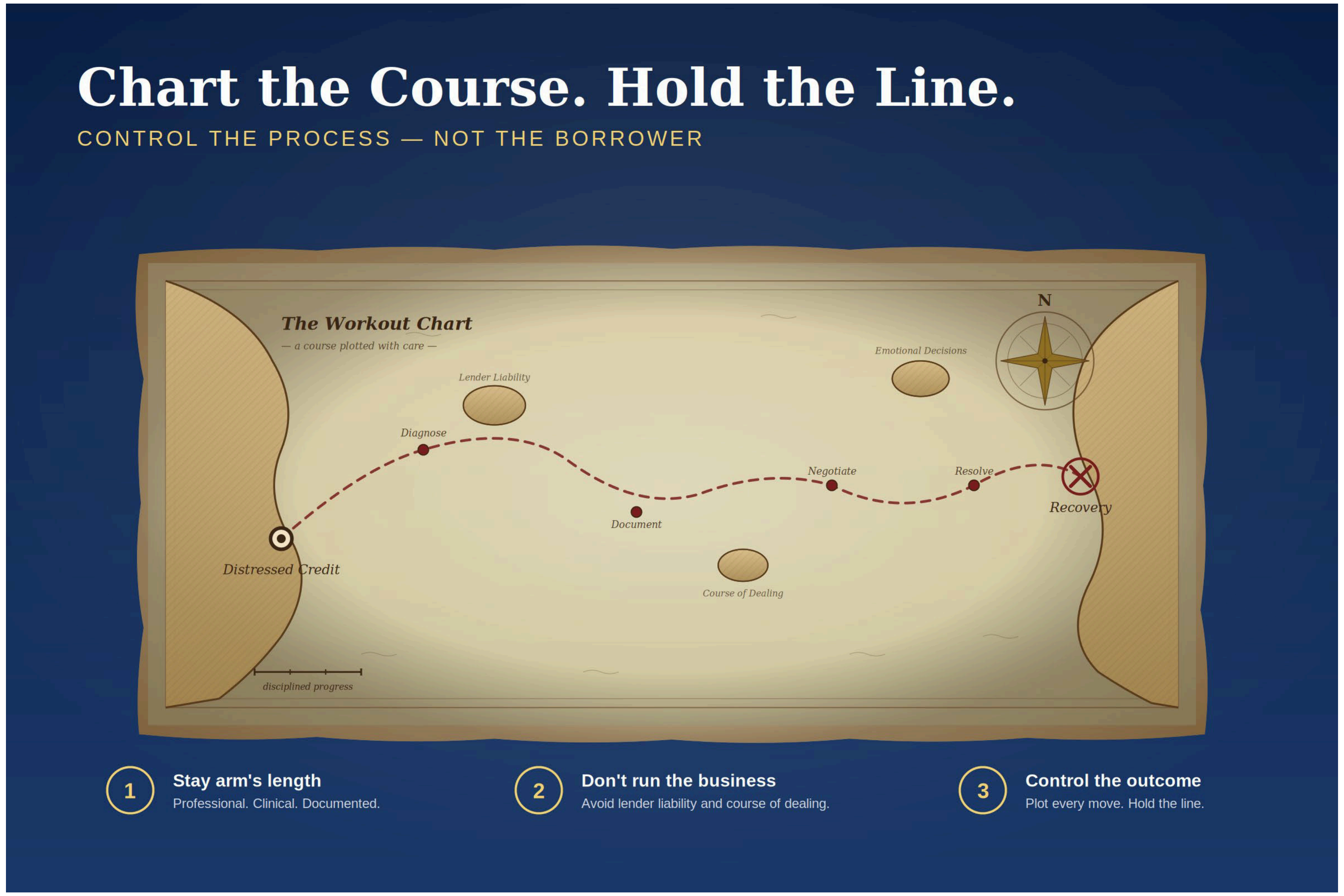
Diagnose Reality

- Viability of business
  - Industry / financial / operationally / reputationally
- Credibility of management / ownership
  - Ability AND willingness
- Retain vs Exit decision
- *Hope is not a strategy*



Control the Process

- Stay disciplined and have good documentation (credit & legal)
- Stay arm's length and maintain professionalism
  - Don't be emotional and be clinical
- Avoid lender liability
  - Course of dealing
  - Don't run the business
  - Keep confidentiality
- Control outcome, not borrower



Run the Numbers

- Utilize NPV with data driven and conservative assumptions
- Compare all resolution paths
  – Restructure, litigation, note sale, discounted payoff, bifurcation
- Eliminates bias
- All things being equal, scenario with highest NPV provides best outcome to bank’s shareholders
- Reputational risk, accounting issues can be swing factors

Stay Disciplined Under Pressure

- Tough conversations required
- Trust but verify
- Modifications should be win/win and not subsidizing other parties
  - Always get “Waiver of Claims and Defenses”
- Limit risks especially going into any litigation / court situation
  - Can’t control the outcome, but definitely want to avoid “foot faults”
- Cash is king

Leveraging your Workout Team

- Think of as “special forces” for the bank
  - Engage early, not after default
    - Use for second opinions on risk/structure
    - Include in watchlist and strategy discussions
- Downside perspective
    - Collateral and documentation insight
    - Portfolio or industry perspective
    - Better exit/recovery strategies
- Bottom line:
  - Integrate early → better outcomes, lower losses

Key Takeaways

Speed creates options

Clarity drives decisions

Discipline preserves value

Control the loss, create value

About ProSight Financial Association

RMA and BAI have come together as ProSight Financial Association to empower financial services leaders to strengthen and advance our industry.

The strategic combination brings together RMA's expertise in serving the **commercial banking** and **risk management** functions and BAI's knowledge in serving the **retail banking** and **regulatory compliance** functions. It's a complementary union of two non-profit organizations that have always had their members' and customers' best interests in mind.

As BAI and RMA came together, we recognized the importance of honoring and building on our 100+ year old histories and trusted reputations. At the same time, we wanted to select a new name that signifies the enhanced value the combined organization will deliver. ProSight does just that.

As ProSight, we've enhanced our ability to support you at a time when the industry is challenged to meet changing customer needs, adopt new technologies and manage more complex risk and compliance issues. We are here to help you conquer these challenges, guide you towards new opportunities for growth, and empower you to act with confidence.

The work we do creates positive ripple effects throughout financial services organizations and the industry – and ultimately helps consumers, businesses, and communities thrive.

Our Purpose:

ProSight

Empowering financial services leaders to strengthen and advance our industry.

Our Values:

Trust

Our foundation of strong relationships built on integrity, confidence and leadership.

Collaboration

Our commitment to foster a diverse, inclusive environment as we work together toward shared goals.

Innovation

Our desire to create unique solutions and resources for the industry.

Impact

Our motivation to go above and beyond and make a difference.