



## **NPLs ACQUISITION PROCEDURES**

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### **1. ZAMCO'S MANDATE**

- 1.1. The main mandate of ZAMCO is to acquire non-performing loans (NPLs) from banking institutions and then find strategies to regularise the non-performing loans.
- 1.2. The strategies that will be adopted to resolve the NPLs will depend on the characteristics of the acquired loan and these will include the following:
  - a) Debt restructuring – this involves extending the repayment period, reducing interest rates etc;
  - b) Operational restructuring – this involves restructuring the actual operations of the company with the aim of re-orienting the business to achieve success;
  - c) Foreclosure – where ZAMCO considers that the debt cannot be re-paid from a borrower's operating cash flows, it can sale the assets that were pledged as security; and
  - d) Liquidation.
- 1.3. Detailed information on the NPLs resolution strategies that would be pursued are contained in the '[Resolution of NPLs](#)' procedures.
- 1.4. The other mandate of ZAMCO is to resuscitate distressed companies that are otherwise considered viable if they are restructured. This is meant to ensure that companies do no close needlessly, and save employment.

### **2. ACQUISITION APPROACH**

- 2.1. ZAMCO will acquire loans that meet its set eligibility criteria and loans will be acquired in phases. In the first acquisition phase, eligible loans are those that are secured by immovable properties i.e. mortgage bonds, and which are not granted to insiders.
- 2.2. After the first acquisition phase has been completed, ZAMCO will consider acquiring loans that are secured by other types of collateral.
- 2.3. The acquisition will be conducted on a willing-buyer-willing-seller basis whereby

banking institutions would offer for sale to ZAMCO their NPLs

### **3. NPLs ACQUISITION PROCESSES**

3.1. The following are the processes that are undertaken when acquiring loans from banking institution:

#### **Offer For Sale...**

3.2. A banking institution desirous of disposing of its eligible NPLs to ZAMCO will submit an offer for sale of loans to ZAMCO. This is done by submitting a list of the NPLs proposed for sale.

#### **Eligibility Assessment...**

3.3. ZAMCO will conduct preliminary assessment of whether the loans offered for sale meet the eligibility criteria. To conduct this assessment, ZAMCO will gather loan and borrower information. The information that will be gathered include the following:

- a) the date the loan was originated;
- b) the original principal balance;
- c) the current principal balance;
- d) the loan's current interest rate;
- e) the date and amount of the last payment received;
- f) the amount of money collected on the loan in the past 12 months;
- g) a brief description of the borrower;
- h) a brief description of the collateral securing the loan; and
- i) the current classification of the loan.

3.4. The reviews will include an interrogation of the submitted data to ensure that all loans and security are enforceable and that title to the underlying property is valid and marketable.

### **Legal due diligence...**

- 3.5. After an assessment of loan and borrower information, an extensive legal due diligence process covering both the loans and security documentation held by the banks as well as the assets securing them is undertaken.
- 3.6. The legal due diligence process is aimed at reviewing the enforceability/validity of loan security and identifying any deficiencies in title of the assets as well as confirming the accuracy of loan information provided by the banks prior to the acquisition of the respective non performing loan by ZAMCO.
- 3.7. Standardized due diligence templates will be used to ensure that consistent loan information for incorporation into the NPL pricing model is captured. The template will include information on collateral value, lien position, borrower capacity to pay, loan documentation and other factors that impact valuation.
- 3.8. The legal due diligence reviews are required to highlight any issues which would give rise to legal difficulties for ZAMCO in managing the loans or in engaging in enforcement actions in respect of them. Particular attention is paid to the enforceability of security, any deficiencies in title to property and the implications of such deficiencies.
- 3.9. Where defects in title or security are identified, ZAMCO may (a) refuse to acquire the loan concerned, (b) request that the institution correct the defect or (c) discount the loan value by an appropriate amount.

### **Property Valuation...**

- 3.10. The cornerstone of the valuation methodology is the assumption that, where loans are non-performing, ZAMCO's ultimate recourse is to realise the value of the underlying collateral securing the loans. The value of collateral is therefore a key determinant of individual NPL pricing. This means the underlying collateral must be subjected to independent valuations by professional valuers.
- 3.11. The underlying collateral of loan portfolios to be acquired by ZAMCO from banking institutions will be valued on a loan-by-loan basis.

### **Valuation and Pricing of NPLs...**

- 3.12. The pricing methodology of NPLs will not entirely take a scientific approach but will also include series of negotiations. As such the pricing policy will evolve with subsequent purchases.
- 3.13. ZAMCO will adopt a 'collateral based valuation' based on the Net Present Value of Estimated Cash Recovery (NPV ECR) model to price

basis will take into account:

- a) the value of the underlying collateral and/or the discounted cash flow for the NPL; and
  - b) the characteristics, book value, terms and conditions of the loans.
- 3.14. The cornerstone of the valuation methodology is the assumption that, where loans are non-performing, ZAMCO's ultimate recourse is to realise the value of the collateral securing the loans.
- 3.15. Once the valuation is concluded a valuation report will be prepared with a price which ZAMCO would use to purchase the eligible NPLs.
- 3.16. The ZAMCO concept involves paying an amount that is less than the book value of the NPLs acquired i.e. buying the loans at a discount. The level of the discount is largely determined by the extent to which a loan is adequately secured, i.e. book value of loan vis-à-vis collateral value.

#### **Acquiring Loans...**

- 3.17. When the valuation and pricing has been done and ZAMCO is satisfied that the loan values and prices are correct, ZAMCO shall, after approval by its board, provide the selling banking institution with an acquisition schedule that shall set out for each eligible NPLs to be acquired—
- a) a statement of the eligible bank asset and the interest to be acquired,
  - b) a statement of any obligations or liabilities excluded from the acquisition,
  - c) the acquisition value,
  - d) details of how the acquisition value was calculated,
  - e) any obligations, to be imposed on the selling bank that are to take effect after the acquisition, and
  - f) the date of acquisition.

#### **Purchase and Sale Agreement...**

- 3.18. When the NPL acquisition price specified in the Acquisition Schedule has been accepted by the selling bank or agreed upon, an NPL Loan Purchase and Sale Agreement (PSA) will be signed between the two parties. The PSA will incorporate a Deed of Assignment envisaging an unconditional and irrevocable sale of assets including its rights and obligation, title and interest in financing documents and all collateral and security interest / or

payment of loans which the seller is entitled to the acquired NPLs.

**Payment...**

- 3.19. Once the PSA has been signed, the last step in the acquisition processes will involve payment of the purchase consideration either in the form of treasury bills or cash.

**Post Acquisition – Files and Records of NPLs...**

- 3.20. A participating bank will be required to deliver to ZAMCO all documents relating to the NPLs which include facility letters, signed resolutions and the collateral documents.
- 3.21. Within a reasonable time after the acquisition of an NPL, the participating banking institution shall make reasonable efforts to notify each debtor, associated debtor, guarantor or surety in relation to the credit facility concerned of the acquisition of the loan by ZAMCO.
- 3.22. After ZAMCO acquires the NPL, borrowers will continue to owe the balances that are outstanding at the date their loans transfer to ZAMCO.