

WHY IT'S BEST TO KEEP YOUR STANDBY WARM



PERPETUAL CORPORATE TRUST
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Banks and businesses generally form relationships with the best of intentions. No business sets out to not succeed or go bankrupt. But when voluntary or involuntary administration does happen, it's in everyone's best interests that things are sorted out as quickly, smoothly and fairly as possible.

For companies that issue loans, it's particularly important to have emergency plans in place. Back in the early 2000s a handover period of 2-4 weeks was satisfactory without much thought as to how practically this would occur, but times have changed. Now most investors, creditors and shareholders will expect, and even demand, that lenders have a standby servicer ready to take over within 24-48 hours. A turnaround this fast is, of course, unachievable unless the servicer has detailed knowledge of the servicers' operating environment it's taking over and a plan and legal agreement to do so, in place to make it happen.

Warmed up and standing by

That's exactly what happened when Perpetual Corporate Trust, as standby servicer, commenced pre-step in activities and planning with the warehouse funder that were followed by the appointment of an administrator for one of its clients. We were appointed in 2018 as part of a capital raising deal. A warehouse bank was funding the securitisation trust and wanted greater security and confidence in the deal, so the bank worked with the lender to appoint Perpetual as Trustee and Warm Standby Servicer.

The warehouse bank wanted Perpetual involved as we are the largest standby servicer in Australia and have a recent, successful track record. We cover around 35 issuers and \$26 billion of assets covered by warm standby servicing roles including RMBS and various other asset classes. To be an effective warm standby servicer, you need to have sufficient capital, expertise and licencing to be able to step in quickly whenever required. The benefits that a warm standby offer over a cold standby are summed up in the table below:

Warm standby	Cold standby
Documented as legal standby servicer	Documented as legal standby servicer
Initial completion of the standby servicing plan and site visit when appointed, followed by annual or bi-annual reviews.	No initial, or ongoing, due diligence
In-depth knowledge of people, systems and processes and other key operational activities	Minimal details of people, systems and processes

Detailed Standby Servicing Plan ready to step in (documented as a requirement of the Standby Servicing Deed)

No plan ready to step in

Steps in quickly for smooth transition, can take control of the management and oversight of the loan servicing within 24-48 hours

Step in unlikely to be quick or orderly, unlikely to be able to take over loan servicing until two to four weeks or longer depending upon the environment

Stepping in

After Perpetual was appointed as warm standby, we spent time intimately understanding the lender's business operations including site visits, interviewing key personnel and reviewing its operations, procedures and systems. From this we prepared a detailed Standby Servicing Deed that documented everything we would do in the event we were required to step in. With this lender we were also appointed as Trustee & Security Trustee, Document Custodian, and Trust Manager. This gave us even greater visibility of the lender and how its business worked.

When we received the first signs that all was not well with the Lender's business, the warehouse bank increased its due diligence on the loan and we also assisted in our multiple capacities as Standby Servicer and Trustee. As the situation continued to evolve, our knowledge of the business and its operations meant we were able to offer expert advice as things evolved.

Keeping things running

As the lender's business situation deteriorated we continued to work with its management team, the warehouse funder and the administrator to try to minimise the financial impact and mitigate any wider fallout. We ensured that communication with the lender's customers operated in a calm and consistent way, keeping them regularly informed. We also optimised and streamlined the payment process: refining the reconciliation processes, reducing the time spent to transfer money to and from the lender's customers and sweeping all incoming payments from the lender's account into the trust account which we controlled.

All of these actions gave the warehouse bank and the lender comfort that the situation was in hand and prevented actions which could have made the situation worse. It also gave the lender, administrator and its creditors more time and space to try to resolve the situation and consider the options available, whether raising further equity or selling the company.

Send in the administrators

Ultimately, the decision was made to appoint a voluntary administrator (VA). We continued to operate as the standby servicer during this period and then worked with all parties to ensure a smooth transition. We had a number of visits and calls with the lender in the lead up to an administrator being appointed during this time, advising all parties on the best path to a successful outcome. We also ensured that collections, payments and communication continued uninterrupted. When the VA was appointed we guided them on the loan servicing operations as well as other matters to do with systems and operation. Our in-depth knowledge of the situation also allowed us to devise a fairer way to calculate and apportion expenses.

Throughout a very difficult situation we work collaboratively with all parties to ensure the best outcome was achieved for all parties.

If you're interested in finding out more about Perpetual's warm standby servicing arrangements contact pctsales@perpetual.com.au



CONTACT US