

# Non Performing Asset Restructuring for Japan's Economic Recovery

---

September 25, 2001

Effective Measures for  
NPA Restructuring in Japan

By: Richard A. Gitlin  
Bingham Dana Murase LLP  
New York, NY  
202-318-7725

BINGHAM DANA

New York • Boston • Washington • Los Angeles • Hartford • London • Singapore

# Addressing Problem Loans

## Key Policies

- Maximizing sustainable long-term growth and employment.
- Maximizing value of problem loans.

# Addressing Problem Loans

## Key Goal

Moving Capital to businesses that will utilize it to create higher sustainable long-term growth and employment.

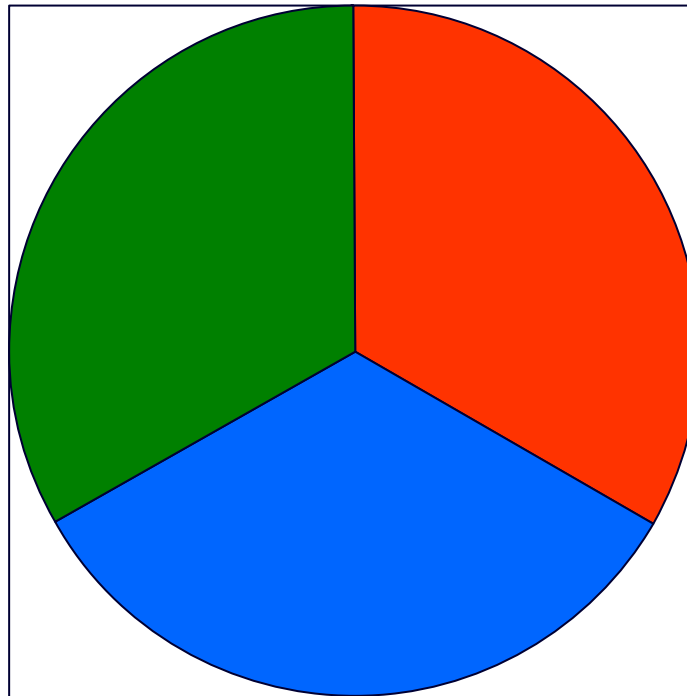
# Addressing Problem Loans

## Key Strategy

Concentrate on loans that will contribute to goals of sustainable long-term growth and employment.

# Addressing Problem Loans

## Category of Problem Loans



- **Good Companies need fixing**
- **Good business assets/bad company**
- **Neither good company nor good businesses**

# Addressing Problem Loans Loxley Example

- Fix business.
- Develop cash flow based on revised plan.
- Reduce debt to amount that cash flow can support (after working capital and key capital investment needs).
- Negotiate equity in return for reduction of debt.

# Addressing Problem Loans

## Results of Loxley Restructuring

### After Restructuring

#### Creditor Wins

- Increase in value of loan

#### Company Wins

- Better position to compete

#### Economy Wins

- Will continue growth and employment

# Addressing Problem Loans

## Results of Loxley Restructuring

### Before Restructuring

#### Creditor Loss

- Value of loan rapidly decreasing

#### Company Loss

- Losing market position/missing opportunities

#### Economy Loss

- Good company in decline mode



# Addressing Problem Loans

## Concerns

- Will create unemployment
- Will fix dead companies which will become unfair competitors to healthy companies
- Will create political and social instability

## Response to Concerns

- Failure to act will create more employment.
- Will fix good companies that can add to long-term growth and employment. Assets of other companies will be transferred to good companies.
- Failure to act will more likely lead to political and social instability.

# Addressing Problem Loans Action Plan

- Debt for equity transactions should be encouraged.
- The Out-of-Court (INSOL) principles should be adopted.
- The DIP loan program of DBJ should be expanded.
- FSA should provide incentives and disincentives to encourage banks to address these loans.
- The Japan Deleveraging Fund or similar plans should be implemented.