

Kaupthing Singer & Friedlander (Isle of Man) Limited (in Liquidation)

Loan book update and strategy

For Committee of Inspection 19 August 2009

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1 Background

1.1 The majority of the loans are interest only mortgage loans secured on UK property. There are a small number of non-UK properties, loans secured on share portfolios, boats, aircraft and cash backed arrangements.

Loans as at 08/10/2008		
Sector	£' 000	No.
UK property	£302	139
Non UK Property	£ 41	14
Yacht	£ 28	4
Portfolio	£ 19	8
Aircraft	£ 10	2
Cashbacked	£ 7	9
Unsecured	£ 9	4
	£ 416	180

1.2 Payment history prior to the provisional liquidation was good, with only one distressed loan at that point. Sub-participation agreements were in place with KSF London as the balance sheet of KSFIOM did not have the capacity to book all the loans independently.

	Number	Value	%
Loan Book at 08/10/2008	180	£416.0m	100
Capital Repaid	-27	(£30.2m)	(7)
Set-off	-	(£10.4m)	(3)
Written-off	-	(£0.8m)	-
FX Fluctuation	-	£9.3m	3
Loan Book at 12/08/2009	153	£383.9m	93

2 Initial strategy

2.1 At the outset there were two possible options open to the liquidators provisionally:

- Seek a buyer for all or part of the loan book;
- Actively manage the book out – a ‘run-off’.

2.2 Over 20 expressions of interest in purchasing all or parts of the book were received, and some tentative offers were tabled.

2.3 All the potential purchasers offered a significantly discounted price for the loan book, citing reasons such as market conditions and costs of transfer. The highest offer received was for £283 million, or 68%, which would have resulted in a write off of £133 million. The liquidators provisionally were not minded to accept any of these offers as they did not appear to offer the best value for creditors.

3 Ongoing strategy and metrics

3.1 The liquidators remain open to sensible offers, but do not expect that any are likely to be forthcoming in the current environment. The current strategy is therefore to manage the book to run it off over its contractual life, to maximise the return to creditors, and some members of the KSFIOM loan team have been retained in order to enable the book to be managed in the most efficient manner. The loan book run-off based on current contractual terms is as follows:

Run off at 12 August 2009

Period	Capital run-off
	£
2009	56,118,525
2010	29,457,720
2011	139,612,008
2012	107,800,551
2013	29,767,596
2014	9,708,823
2015	-
2016	11,530,166
	383,995,389

3.2 The loan book is being managed proactively in order to identify non payments, potential defaults, deteriorating loan to value ratios and changes in circumstances. We will work with borrowers where possible in order to obtain the best outcome for creditors, failing that, enforcement action will be taken. In order to assist borrowers who are seeking to refinance their loans, a loan panel has been established, consisting of six banks who have indicated a willingness to consider taking on such loans.

3.3 A small number of loans allowed interest to be rolled up to maturity instead of requiring periodic payments of interest. In these cases we are negotiating with the borrowers in order to convert the loans into interest paying loans.

3.4 A large number of borrowers have attempted to obtain a discount in return for the early repayment of their loans. In the opinion of the Joint Liquidators this does not represent the best value for creditors and such offers have been rejected. As a matter of policy, no discounts will be offered or accepted for early repayment.

3.5 Cash flows are monitored at credit committee meetings and a 'pipeline' of redemptions is kept. Following set off on 27 May 2009, the picture is clear for most borrowers and redemption dates will be actively monitored. All borrowers with redemption dates in 2009 & 2010 have been written to with advice that the bank will not be in a position to extend their loans. Where there is any concern expressed about the ability to pay, a meeting with the borrower has been arranged and schedules of capital reduction proposed. Any request to redeem a loan is actively considered and the relevant figures prepared for the borrower.

3.6 A considerable proportion of the borrowers also had deposits at KSFION. Following the court hearing on 27 May 2009, mandatory set off was applied and borrowers advised of their reduced loan balances. This has led to a number of requests for redemption figures and capital repayments are now being received. There are a small number of cases where set off is not clear cut and these are being handled by our Manx advocates or English solicitors, depending upon the law governing the loan agreements.

3.7 The liquidators have met with significant borrowers to discuss their facilities and have also met with borrowers having difficulty repaying or re-financing to explore potential solutions.