



Troubled Debt Restructuring

IV. A/B Note Structure

A/B Note Structure

“A” Note

- **Yields a market interest rate**
- **Reasonable modified terms**
- **Reasonably assured collectability**

“B” Note

- **Concession granted**
- **Charged off**

A/B Note Example

- **Restaurant loan \$1,000,000**
- **Business has declined considerably**
- **Borrower unable to service debt**
- **Loan 90 days past due and on nonaccrual**
- **Collateral value \$735,000 – LTV of 136%**
- **Net realizable value of \$647,000**
- **Not collateral dependent**

A/B Note Example

“A” Note

- **\$650,000**
- **Current market rate of 6.5%**
- **DCR of 1.1x**
- **LTV of 88%**

“B” Note

- **\$350,000**
- **Below-market rate**
- **No payments**
- **P&I due at maturity**
- **Charged off**

"A" Note – Return to Accrual

The "A" note can return to accrual status provided all of the following conditions are met:

Current, well documented
credit evaluation



Reasonably assured
repayment of P&I



Sustained payment
performance
(Generally at least 6 months)