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Case Study: An Olympic Size Swimming Pool in the City

Mohd Yaziz Mohd Isa^{*}, Nor Azami Rosli^{*} and Zulkiflee Mohammed^{*}

An Olympic size pond in the central town of Seremban, a city south of Kuala Lumpur catches the attention of many people entering town. Most of Seremban folk are aware that the pond is actually an abandoned shopping complex project. It is among one of the projects abandoned during the economic downturn in the late 1990s. However, 15 years later, the state government announces to revive the abandoned Olympic size pond's project as part of the Greater Kuala Lumpur/Klang valley National Key Economic Area Initiative. This real case study illustrates several issues surrounding an abandoned commercial project that is of public interest. Many of these issues remained unresolved until today.

1. Introduction

“Nahhh...go back to you!” Shanmugam shouts. He leaps into the air and with all the strength, smashes the shuttlecock. It flips this time just over the net and drops into Azami's court.

“Oooopps! you win again.” Azami says and attempts a smile. Tired and exhausted. Earlier, in the game, the shuttlecock is going back and forth as they are exchanging services several times.

“You know Shan...at least badminton is a game that is more definite, not like the issues that are going back and forth between Ros and me. She is telling all lenders to direct all inquiries on the syndication term loan to me just because my bank has the largest participation. Just because I'm in debt recoveries...how interesting of her...I tell you....I'm receiving all kinds of calls from the lenders. I'm very irritated of them asking me...all kinds of questions.”

Shanmugam and Azami, both in their late-thirties are close friends. They like to play badminton together. They make it a point to meet for a game or two on Friday evenings. They had met ten years ago, when both were graduate business students at a government university in Chennai, India.

“I am sure she has her reasons for doing so.” Shanmugam offers an explanation. He adds, “May be, she is thinking of her bank's role is just as an arranger, not more than that.”

“Shan.....even with all that talk about consolidation and integration exercise of ABC Banking Group to overcome large scale redundancies and face global competition in facing worsening debt crisis, I am still not convinced the exercise is for the better for

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this account. If anything, it only justifies her reasons in going back and forth the responsibilities in handling the account between us!" Azami defends. "Come on..cheer up Azami! Look at the brighter side." Shanmugam tries to console his close friend.

2. Colleagues at ABC Banking Group

Ros and Azami are colleagues at ABC Banking Group, the sixth largest banking group in the country with 194 networks of branches throughout the country. But, Ros is in investment department while Azami is in its commercial banking arm of the bank.

Ros aged 38 is a manager in credit control. Divorced, having risen through the ranks, it was only a year ago that she made a major leap into the throes of the corporate banking and inadvertently found herself on the perch of credit control.

On the other hand, Azami is a manager in debt recoveries. He has accumulated more than ten years of experience in corporate banking. Determined and ambitious, his philosophy is "to do an honest job without getting involved in office politics." And his favourite past-time is karaoke session and his favourite songs are Bee Gee's tune especially, "Let it be."

3. Syndication term loan details

ABC Investment Bank is an arranger of a RM100 million syndication term loan to a joint-venture project development company, Aff Development Sdn Bhd to finance in a city south of Kuala Lumpur to build and construct a 5 storey shopping podium and 27 storey office tower block to be known as "City Mall". The company is an associate company of Metro and Triple AAA Avenue Berhad, where each holds 50% of equity interest. A charge was created on the project as a security in respect of the term loan.

There are a total of eight commercial local banks who participate in various amounts in the syndication term loan. As ABC Investment Bank is just an arranger, it has no participation in the syndication term loan.

ABC Bank however is the largest lender to Aff Development Sdn Bhd because not only it participates the largest amount in the syndication term loan, but also it grants the company bilateral term loans of RM15 million to acquire the land for the purpose of developing the project. All loans rank pari passu on the project.

4. The meeting with shareholders, August, 1998

It was nearly noon and still raining outside. But inside the conference room of A Bank on 18th floor of Central Square Head Office on Jalan Munshi Abdullah in Kuala Lumpur where the meeting was held, all the syndication lenders present were listening eagerly. They were anxious.

“However, due to certain circumstances, we are not continuing with the project!” Johnny, the Managing Director of Metro stunt the lenders at the meeting while holding photographs of the development site which he shot a week earlier.

“The plans to build and develop the shopping complex cum office tower block have been shelved also due to the Government’s efforts in reducing the rapid growth of hypermarkets in Klang Valley and Seremban. However, as per the Shareholders Agreement, we would try to honour but our share of the loan outstanding.” Johnny obliges.

Ten minutes earlier, Jennifer, the Managing Director of Triple AAA Avenue Berhad calls through the speaker telephone and apologizes as nobody from the company would be able to attend the meeting citing that it is an instruction from its Board.

Triple AAA Avenue Berhad to date has restructured from a property-based company into a financial service group. As a requirement from the Government for obtaining a universal brokerage license, the company has divested all its holdings in property development companies.

5. Syndication Term Loan. Current status

Until today, the construction works of the complex has stopped. The complex is left abandoned and looks like a huge Olympic size swimming pool.

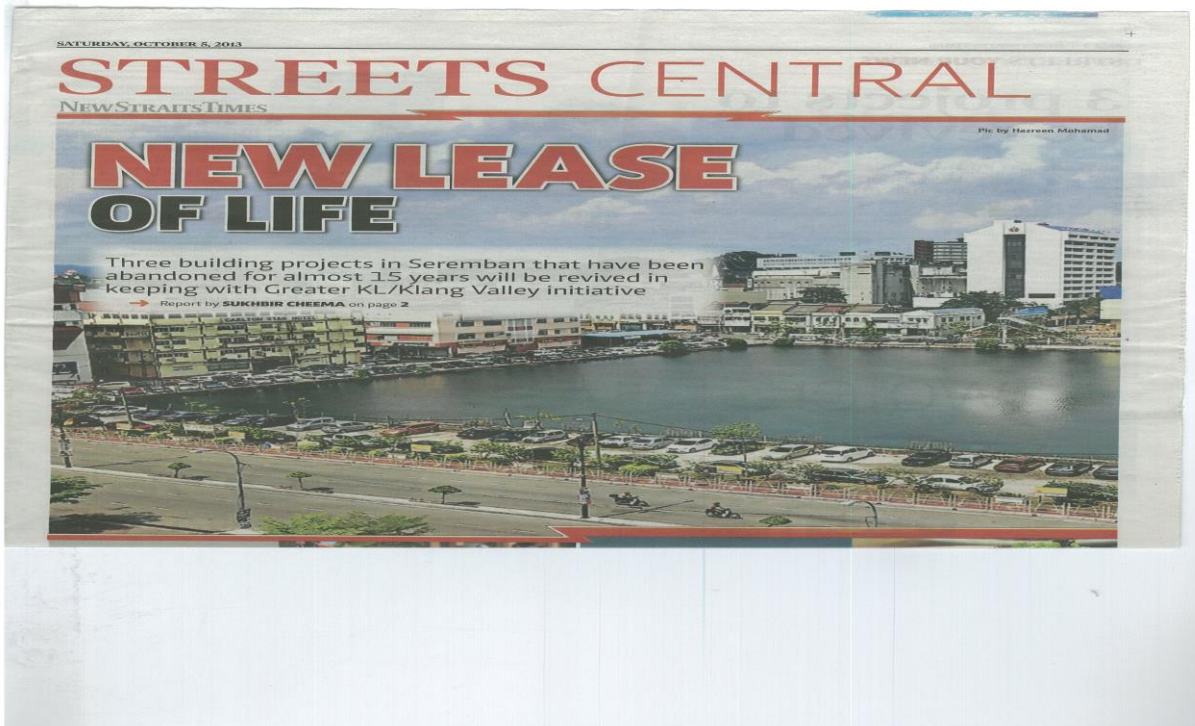


Figure 1-New Straits Times 5 Oct 2013

As expectedly, the syndicated term loan becomes delinquent. It has since turned non-performing (NPL) just after six months. Moreover, efforts between the lenders and the two shareholders to strike mutually beneficial solutions have been futile. By

now all syndicated lenders have made full provisions for their losses in the term loan. Therefore, any proceeds from disposal of the security would be bad debt recoveries.

When pushed, at a unilateral meeting with Ros and Azami, and Johnny remarks, "We are now requesting for the land to be sold in the open market via public auction."

The two colleagues from A Bank locked eyes for a full minute before Ros responds. "Johnny," she says, speaking slowly and softly, "You're sure about this, aren't you? I don't know how other syndication lenders are going to react."

Johnny pauses, "Definite! Sell it in the open market."

"You heard him, Azami?" Ros raises her voice after sending off Johnny into the lift. Both of them walk side by side by the narrow corridor. She adds, "I can't figure out how to inform the other syndicated lenders that now we want to sell the land. Besides, foreclosure is going to be a lengthy process. It could take almost a year!" She looks at her watch.

"Can we discuss this matter over the phone tomorrow, preferably in the afternoon?" Ros asks as she walks towards the restroom. She needs to wash up her make-up.

"Yes, not a problem." Azami replies.

6. The conversations with syndication lenders

"Yeah...it is true that ABC Bank is the largest lender in this syndication term loan...but, ABC Investment Bank is still the loan arranger. Therefore, you should direct all your inquiries...and grievances, if you have any, to Ros." Azami defends.

"I am just one of you...just one of the lenders in this syndication. True that I have been leading and initiating in calling for meetings of all syndication lenders to negotiate settlement proposal with Metro because..." adds Azami to Yaziz from Maybank over the telephone.

"Sure....but ABC Bank being the largest lender....you should know what is going on with this account...including such as the current status of civil and foreclosure actions. Furthermore, ABC Bank as a group should be united in handling this account. Isn't this is about the group's dedication?" Yaziz laments further.

Azami shakes his head and hangs up the phone. He feels as if he'd been slapped. His thoughts raced back to the conversation he had a few days ago with Ms Megat, Vice-President from MPC Bank. She too isn't happy.

"Even last few days, I called and she was on leave. So, I left a message. But she didn't return my call. Now, who should I be calling then? I called Ros this morning and she told me to call and check with you!" Ms Megat is irked.

She adds, "I am desirous to know on the distribution of monies under normal syndication methodology, eerrr...whether to follow proportionate share based on respective syndication lenders principal outstanding or settlement of all interest first, overdue interest next and then the balance towards principal? Using the latter method, some lenders including your bank will benefit at the expense of others including us!"

"Yeah....based on the latter method, invariably result in lenders, including ABC Bank having the higher interest charge receiving more recoveries allocation." Azami clarifies. "Anyway.... we will have done the same if it has benefited others..."

"It is best that issues like these be dealt with at the next lenders' meeting. I'll inform Ros." Azami says.

7. The conversation with the loan arranger, the last straw.

"But you are the arranger. Besides, we have been paying you agency fees. I would expect you to be hands-on with developments on the account." Azami argues to Ros.

After the meeting with Johnny when it was decided that foreclosure of the project development was inevitable, Ros has appointed Messrs Ali Brothers, a Merlimau-based Malacca property valuer to undertake an updated report and valuation of the property. The valuer is of the opinion that the market value of the property in its existing conditions with benefits of the partially completed works of two levels of basement car park and piling is RM27million.

In addition, the Seremban High Court has set a public auction on 1 December, 1999 and the reserve price is fixed at \$27 million as per the valuation report. Noor, a licensed auctioneer from Messrs Rosmawati has been appointed by the Court to be the auctioneer.

At precisely 9 am, Azami arrives into his small cubicle at the bank and immediately sits at his desk. "Ros? It's Azami." Struggling to keep his nervousness under wraps, he cradles the receiver against his shoulder, "I know I've probably disturb you, and I'm sorry, but..."

"So what do you want so early in the morning?" Azami asks with agitation from not having enough of karaoke session the night before, and continues, "I've been giving this a lot of thought in last couple of days, and I think you are in a better position to handle this account. Mmmm....what I mean....you're in a better position in hastening recovery efforts. It's going to be good in your performance evaluation, right?"

"Hey, slow down. I'm not following you. Besides, it's not for me to decide. All I'm asking is when the Proclamation of Sales (POS) would be advertised? You know that the auction is less than few months away. The clock is ticking. I may have prospective bidders who may be interested."

“We’ll let you know.” Ros replies defensively.

Azami has been calling Ros to follow-up on the date the POS would be advertised in the newspaper so that he could alert in advance potential purchasers who have been calling him. However, Ros has not been able to confirm the date the POS would be advertised. She even could not confirm whether the POS has been finalised!

“How could you not aware that the POS actually was advertised in the newspaper yesterday? Besides, when I asked you yesterday, you have told me that you would let me know. But, actually it was advertised in yesterday’s newspaper. I am so embarrassed when one of my potential purchasers told me that. It appears that we are not hands-on with our own account!”

“Sorry for saying this,” Azami continues, “I’m trying my best to work with you on this account. But it’s very frustrating.” Azami sighs.

Azami thought for a moment. He stares stone-faced at the white board on Key Performance Indicator (KPI) hanging on the wall right across from where he sits. He is in bad debt recoveries where his performance will be measured based on recoveries from restructuring and rescheduling of delinquent and non-performing loans.

The loans to Aff Development Sdn Bhd have been fully provided long ago. The bank has already borne the pain of these loans therefore going forward any proceeds from disposal of the security would be profits from bad debt recoveries. He could easily achieve his target profits from recoveries from this account.

Azami remembers the meeting with Lokman, an Aceh origin and an old colleague who has since left to join Republic Bank, the second largest commercial bank in the country. He too is in debt recoveries. His friend’s remarks, “In some of recovery cases that we come across...the bank will have to throw more money at the defaulting borrowers for them to complete their projects...in order to increase our chance of recouping the losses.”

Scaring because his bank has no application system to calculate outstanding amounts for the lenders, Azami wonders on how he could be prepared to handle the syndication term loan. He relies on his colleagues to crunch the figures for all the lenders. Besides, there’s too much paperwork, he thought, looking at the files of correspondence on the account sitting on his desk.

8. 15 years later in October 2013

In October, 2013, 15 years later, the State Government has announced to revive the project as part of the Greater Kuala Lumpur/Klang Valley National Key Economic Area initiative. The project would be turned into a four-storey shopping complex

instead. A few new conditions are imposed for the new developer in order to ensure completion of the project this time around.

Questions:

1. How should the issue on the syndication term loan be handled?
2. How the Government should have intervened to expedite solutions in private-initiative projects that are of public interests?