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Aligning story, strategy and structure to secure corporate financing

Special Loans Guide

Special Loans: What it Means and What To Do Next



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The logo consists of the lowercase letters 'dw' in a bold, sans-serif font, centered within a white square background.

A practical overview for Canadian business owners, executives, and their advisors.

When your file is moved into a bank's special loans group, it can feel like the floor just dropped out from under you. The relationship manager who "knew your story" is no longer in charge. New people appear with titles like Special Accounts, Restructuring, or Workout. The tone of the conversation shifts from growth and convenience to risk, security, and repayment.

This note is intended to demystify that world: what special loans actually is, why you ended up there, what to expect from the process, and—most importantly – how to navigate your way out with the best possible outcome for shareholders, employees, and the bank.

What is the Special Loans Group at a Bank

Every major bank has a dedicated team that manages higher-risk or non-performing commercial loans. Depending on the institution, it may be called:

- Special Loans / Special Accounts
- Business Restructuring Group or Unit (BRG/U)
- Workout Group / Remedial Management
 - Business Recovery or Restructuring
 - Special Account Management Unit

Although the names differ, the mandate is consistent:

- **Protect the bank's capital, not grow it.** The primary job of special loans is to stabilize situations, reduce risk and maximize recovery on troubled loans, not to finance new projects or expansions.
- **Centralize specialized expertise.** These teams are staffed with lenders who focus on distressed or stressed files: covenant breaches, arrears, liquidity crunches, or businesses in transition or distress.
- **Apply a more formal, document-driven approach.** Where core commercial banking relies heavily on relationships and growth, special loans relies on security positions, legal rights, and detailed cash-flow analysis.
- **Act as the gateway to recovery, refinancing, enforcement or exit.** Only special loans teams have the mandate to propose restructuring ideas, push for refinancing, pursue formal enforcement (e.g., demand letters, receivership) or negotiate structured exits (refinancings, asset sales, settlements, insolvency).

It is important to understand that being in special loans does not automatically mean the bank "wants you gone tomorrow." It does mean **your file has moved from the business development side of the house to the risk mitigation, restructuring, refinancing, and recovery side**, with a different set of priorities and constraints.

Why Were You Put in Special Loans

Most business owners experience the transfer to special loans as a shock. Internally, however, it is often the result of a series of risk indicators that have been building for some time.

Typical triggers include:



Financial Performance & Covenant Issues

- Breach (or expected breach) of financial covenants such as debt service coverage, leverage, or working capital.
- Sustained losses or negative trends in revenue, margins, or EBITDA.
- Repeated “cure” requests or temporary covenant waivers.



Liquidity & Arrears

- Persistent use of operating lines at or beyond limit.
- Cheques returned NSF, payroll pressure, or missed remittances to CRA.
- Over-advances on borrowing-base facilities (AR/inventory margining).
- Interest or principal payments delayed or missed.



Collateral & Security Concerns

- Deterioration in collateral value (equipment, real estate, inventory).
- Unresolved title or security registration issues.
- New competing security granted to other lenders without consent.
- Major insurance claim triggered.



Reporting, Governance, & Communication

- Late or incomplete financial reporting to the bank.
- Unexplained or frequent variances from forecast.
- Limited visibility on cash, order book, or major risks.
- Sudden surprises (e.g., large write-offs, legal claims, major customer loss).



External Risk Factors

- Sector-wide stress (e.g., commodity downturn, construction cycle, regulatory change).
- Major customer or supplier failure.
- Key-person issues (health events, disputes among shareholders, management turnover).

Often there is no single “smoking gun.” Instead, the bank’s internal risk-rating model has moved your file into a higher-risk category, triggering the transfer. From the bank’s perspective, this is part of a standardized risk-management process, not a personal judgment about you or your business.

What is the Typical Process Now that you are in Special Loans

Once transferred, your file follows a more structured and formal process. While details vary by bank and situation, a typical flow looks like this:

1 Transfer and reset of the relationship

- Formal introduction: You are introduced to a new lead (often called a Special Accounts Manager or Restructuring Manager). Your previous relationship manager becomes secondary or steps away entirely.
- Mandate clarification: The new manager will explain their role: understand the situation, protect the bank's position, and work towards a plan to reduce risk and resolve the file.
- Tone shift: Expect a more direct, sometimes blunt communication style. Special loans officers are trained to be clear about risk, timelines, and consequences.

2 Information gathering and risk assessment

- Enhanced information requests such as up-to-date monthly or weekly financials; 13-week cash-flow projections; aged AR and AP listings; inventory reports; and order book details.
- Third-party reviews, which may include field exams, equipment or real estate appraisals, and business reviews by external accountants or restructuring consultants.
- Security review to confirm registration, priority, and coverage of the bank's security and identify any unapproved subordinated lenders or priority concerns.

3 Short-term stabilization

- Short-term accommodations such as temporary over-limits, interest-only periods, or short extensions of maturity dates.
- Tighter controls such as weekly or monthly cash-flow reporting, restrictions on capex and shareholder distributions, and lockbox or blocked-account structures for receivables.
- Formal documentation through forbearance agreements and amendments to credit agreements, including higher pricing, additional covenants, or new reporting obligations.

4 Medium-term plan and decision point

- Remain with the bank (restructured) under revised facilities sized to what the business can reasonably support, often with equity injections, asset sales, or other risk-reducing steps.
- Refinance to a new lender such as another bank, an asset-based lender, or a private credit fund better suited to the company's risk profile.
- Orderly sale or wind-down if long-term viability is doubtful, focusing on maximizing recovery through an asset or business sale.
- Formal enforcement (last resort) via demand letters, receivership, or other actions where voluntary solutions are not progressing and the bank's position is at risk.

Your conduct during this phase—quality of information, responsiveness, and the credibility of your plan—has a major influence on which path becomes available.

How Long Can You Expect To Be in Special Loans

There is no fixed timeline, but banks generally do not want files to linger in special loans indefinitely.

Typical ranges:

Short-term situations

6–12 months

- A specific event created temporary stress (e.g., one-time loss, delayed project, short-term liquidity crunch).
- The business is otherwise healthy and responds quickly with a credible plan and improved reporting.
- Result: restructured facilities or a clean refinance, and the file exits special loans.

Medium-term situations

12–24 months

- Deeper operational issues or sector headwinds.
- Need time to execute a turnaround, complete asset sales, or arrange a more complex refinancing.
- Bank may be patient if milestones are met and communication is strong.

Long-term or chronic situations

2+ years

- Structural over-leverage, sustained weak performance, or unresolved shareholder and governance issues.
- The bank may permit a longer workout horizon if security is strong and recoveries are expected to be higher than in an immediate enforcement scenario.

In practice, most banks aim to reach clarity within 12–18 months on whether a file will (a) return to core banking, (b) refinance elsewhere, or (c) move toward enforcement or sale.

Two Factors Strongly Influence Timing

1 Long-term or chronic situations

Are you proactively bringing forward a realistic plan, or is the bank discovering problems before you disclose them?

2 Evidence of execution

Are cash-flow forecasts, operational changes, and milestones being delivered, or are they repeatedly missed?

The more proactive and transparent you are, the more room the bank has to support a time-bound solution instead of accelerating to enforcement.

How Do You Get Out of Special Loans

There are three broad “exit doors” from special loans:

- Return to the core banking group at your existing bank.
- Refinance or restructure with a new lender (or mix of lenders).
- Exit the business through sale or orderly wind-down.

Your goal is to maximize optionality: keep as many doors as possible open for as long as possible and then choose the path that creates the best outcome for shareholders and stakeholders.

1 Stabilize cash & stop surprises

- Build a rolling 13-week cash-flow forecast and update it regularly.
- Ruthlessly manage collections and credit terms, inventory purchases, and discretionary spending.
- Communicate early if forecasts are off and explain why.

2 Build a credible plan, not just a story

- Offer a clear diagnosis of what went wrong.
- Provide a concrete operating plan with cost actions, pricing changes, and other improvements.
- Include a capital plan (equity injections, asset sales, rightsizing of facilities).
- Set out a timeline with milestones over the next 3, 6, and 12 months.

3 Upgrade financial reporting & governance

- Deliver monthly financial statements on a consistent schedule.
- Create simple KPI dashboards for order book, margins, AR aging, and other key metrics.
- Hold regular management and board meetings with documented actions.
- Upgrade internal finance leadership where needed.

4 Right-size the balance sheet

- Inject equity where feasible from existing or new shareholders.
- Sell non-core assets such as excess equipment or non-essential real estate but mind cross secured assets.
- Restructure liabilities via asset-based lenders, mezzanine, or private credit providers.
- Negotiate revised amortizations and covenant structures where appropriate.

5 Manage communication strategically

- Be transparent but prepared, entering meetings with up-to-date data and clear asks.
- Avoid overly optimistic narratives not backed by numbers and provide sensitivity analysis.
- Document agreements and next steps after each meeting.

6 Know when the bank relationship has run its course

- Recognize when a different bank, private credit, or asset-based lender is a better long-term fit.
- Start planning for a transition early to preserve credibility and optionality.

Who Should You Call to Help You While in Special Loans

Special loans is a specialized environment. Trying to navigate it alone—while also running a stressed business—is risky and exhausting. The most successful outcomes are usually achieved by owners who build the right advisory bench early.



Capital advisory / debt advisor

- Diagnose whether the issue is primarily capital structure, operations, or both.
- Build integrated financial models and cash-flow forecasts that withstand bank scrutiny.
- Prepare lender-ready materials that articulate the situation and proposed solution.
- Lead discussions and negotiations with the bank on structure, covenants, and timelines.
- Run a refinancing or recapitalization process if staying with the current bank is not viable.



Legal counsel with restructuring & banking expertise

- Review and negotiate forbearance agreements, amendments, and new security.
- Advise on rights and obligations under existing credit and security documents.
- Protect directors and officers from unintended personal exposure.
- Clarify implications of various paths (restructure, refinance, sale, or enforcement).



Accounting and tax advisors

- Assist in stabilizing and upgrading financial reporting.
- Support or conduct quality-of-earnings work that underpins your plan.
- Help design tax-efficient restructuring or sale structures.



Licensed insolvency & restructuring professionals

- Clarify the practical implications of proposals being discussed with the bank.
- Provide options such as notices of intention (NOI), proposals, or other formal processes if required.
- Improve recoveries and outcomes when a formal process is the best path.



Operational and sector specialists

- Validate and refine your turnaround plan.
- Support execution of cost-reduction, pricing, or productivity initiatives.
- Provide independent credibility to your projections.

The Bottom Line

Landing in special loans is a serious development—but it is not automatically the end of the road. It is a signal that:

- **The bank's view of your risk has changed.**
- **The conversation has shifted from growth to recovery and risk mitigation.**
- **Time and credibility are now your most valuable assets.**

Owners who engage early, communicate honestly, invest in good information, and surround themselves with experienced advisors give themselves the best chance to stabilize the business, preserve stakeholder value, and exit special loans on terms that are controlled rather than imposed.

Handled in this way, special loans becomes not just a destination, but a structured chapter on the path to a better-aligned capital structure and a more resilient business.

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