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Schneider Drinks (B). Additional Loan Requirement

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In the morning of July 11, 2004, Michael Kaiser was trying to decide what to do about Schneider Drinks' loan application.

He needed to clarify his thoughts before the Sparkasse Düren Risk Committee meeting, that very afternoon. The topic for discussion was the €509,000 in loans currently outstanding to Schneider Drinks, and the company's application for a further €350,000.

Background

In October 2003, after examining the data on sales and gross margins, the income statements and the forecasted financial needs for the years ahead supplied by Schneider Drinks, and on the basis of information from its own Financial Analysis Department, the bank had granted Schneider Drinks a further loan of €195,000, on top of the €320,000 already granted, to cover an investment in a refrigeration plant. This additional loan had been personally guaranteed by Schneider Drinks' four partners.

Initially, Schneider Drinks had seemed financially healthy. However, after six months Kaiser, Director of the Sparkasse Düren Financial Analysis Department, was amazed to receive the news that the partners had filed for personal bankruptcy under German law. The company was nevertheless continuing to conduct its business as usual, fulfilling all its obligations. A meeting of the Risk Committee was called to study the situation, which was giving cause for concern.

The first meeting took place on May 16, 2004, with Michael Kaiser, Schumann, manager of the Jülich branch, and Hans Schmidt, Sparkasse's legal adviser, in attendance. They tried to establish how Schneider Drinks would be affected by the owners' personal bankruptcy procedure, since the situation appeared, at least at first sight, to be due to circumstances unrelated to Schneider Drinks's business activity.

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Schumann supplied information about the company's new investments in fixed assets, specifically improvements and changes to the fleet of trucks, the frozen food unit, and palleting facilities. These investments reassured him about the company's future, since, as he put it, when a company invested €350,000 in the current economic climate, it was obviously expecting to do well.

Schmidt, however, with his customary pessimism, looked on the darker side:

> "Firstly, there are the rumours – well, not exactly rumours, but unofficial information – that the Coca-Cola bottler is going to terminate its distribution contract with Schneider Drinks on account of payment irregularities. If that happens, I think it will have serious consequences for Schneider Drinks. Secondly, as Michael Kaiser told me earlier, Schneider Drinks did not obtain the distribution rights to the Unilever products they had hoped for. Lastly, in the very detailed study[1] they submitted – a touch too perfect to my mind – they clearly stated that no further investments would be needed; and then, just one month later, they took on another €350,000 of investment.
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> "You can think what you like, but as far as I'm concerned, considering what I've told you and the fact that the partners are in personal bankruptcy, there are too many things that don't add up."

The meeting ended with an agreement to meet again in two weeks' time, once Schumann and Michael Kaiser had spoken with Schneider Drinks' partners and formed an opinion as to the posture they should adopt.

A Meeting With Schneider Drinks

Kaiser met with Werner Schneider, Schneider Drinks' General Manager, who confirmed that Coca-Cola was going to discontinue its relationship on June 1, and that Schneider Drinks had failed to reach an agreement with Unilever for the distribution of new frozen foods and ice cream, owing to a change in Unilever's policies.

However, Schneider stated that they had obtained the distribution rights for new frozen and pre-cooked foods and domestic cleaning products, and showed Kaiser the contracts as proof. Kaiser also saw a considerable stock of the new products in the warehouse. Werner Schneider explained that this was why Schneider Drinks had had to convert the fleet of trucks and improve the palleting facilities.

When the time came to discuss the loan request, Schneider stated that they had a liquidity problem, owing to the adjustments currently under way, and that they needed a further €350,000 working capital loan, as they had already explained to the manager of the Jülich branch.

Werner Schneider assured Kaiser that the partners' problems would not affect the company and that, in addition to seeing it as a business, the partners felt that the company played a useful social role by providing work for a large number of people. He was willing to let Sparkasse investigate Schneider Drinks in depth using Schneider Drinks' own computer system.

[1] This study had been carried out by two MBAs from a well-known Spanish business school. In general, Schmidt and Kaiser paid little attention to projected income statements as they did not usually match reality. They concentrated mainly on sales and the investments required. Furthermore, Schmidt always had the feeling that accounting information in itself was never of much use and was also extremely boring.

Sparkasse's Last Meeting

On June 1, 2004 Schmidt, Kaiser and Schumann met again.

Sparkasse Düren did not carry out exhaustive investigations of unpaid loans of less than €700,000, owing to the high cost of an in-depth investigation (which could amount to more than €20,000) and the unlikelihood of discovering whether or not there had been misrepresentation or concealment of assets by the borrowers.

However, given the size of the credit granted to Schneider Drinks, Kaiser's department in Sparkasse Düren decided to initiate a study of the legal aspects of the company's and the partners' performance from the time the loan was granted to ascertain the company's current situation and its viability.

Schmidt would continue with the legal study of the partner-guarantors' personal bankruptcy filing. It was significant that only one year after having declared assets of €2 million and no appreciable encumbrances, the company was now in a critical financial situation.

The Future Seems Complicated

Michael Kaiser had to present a new proposal to the Risk Committee based on the information obtained by his assistants in June and early July (see **Exhibits 1, 2, 3** and **4**), but without yet knowing the results of the study of the legal aspects of the guarantors' suspension of payments (although he had the impression that the legal preparation of the suspension of payments had been perfect).