Debtwire
An Acuris company

European players to discuss action plan on NPLs, some urge GACS-like schemes

24 September 2020 | 18:58 BST

PROPRIETARY
ABS

Financial Services
Italy

Options to tackle the expected new wave of non-performing loans in the aftermath of the COVID-19 pandemic will be discussed tomorrow (Friday 25) during a virtual roundtable planned by the European Commission's department for financial stability and capital markets (DG FISMA). The meeting will be the start for development of a new action plan, which would be presented later in the course of 2020, a spokesperson with the EC said.

The potential establishment of a network of asset management companies (AMCs) along the lines of Italy's AMCO and Spain's Sareb will be presented, the agenda showed, as well as the potential creation of a European NPL platform to open up the market to smaller buyers.

Rather than a centralised system to address the problem, though, some market players would prefer each European country to address the NPLs problem internally with equal access to the same instruments. NPL securitisations backed by state guarantees were adopted in early 2016 in Italy (Garanzia Cartolarizzazione Sofferenze or GACS) and in December 2019 in Greece (Hercules Asset Protection Scheme or HAPS) and proved to be strong weapons to dispose of NPLs even in the midst of a crisis.

The Commission will present its recent proposal in the context of securitisation of non-performing exposures (NPEs), the spokesperson said, without referring specifically to state guarantees. Among the goals of the proposal, according to its preamble, is to "enhance the effectiveness of national public guarantee schemes assisting institutions' strategies to securitise NPEs in the aftermath of the COVID-19 pandemic".

In the meantime, the schemes have been on the tables of ministries and central banks of several countries with roundtables and presentations from advisors, according to a source close to the discussions and a source familiar with them.

Germany

"All German NPL stakeholders, including the financial industry and the German government — mainly the federal Ministry of Finance — have been involved in the discussion of potential NPL instruments, and also NPL securitization," said Jürgen Sonder, president of BKS¸ the Federal Association of Loan Purchase and Servicing and chairman of the senior advisory board of Intrum Deutschland.

The topic emerged over the summer in private and public discussions. The Ministry of Finance declined to comment.

In late July, Intrum and law firm White & Case presented experiences and benefits of the GACS and HAPS schemes during a virtual roundtable with about 80 stakeholders, planned by the Frankfurt-based Deutsche Kreditmarkt-Standards (DKS) association.

“The development of an NPL securitisation structure in Germany is not facing any major hurdles,” said Jörg Keibel, deputy chairman of the board of directors at DKS. “If interest is paid on the guarantee at market conditions and the loan servicing is carried out by an external servicer, the necessary approval from the European Commission will have to be obtained that the state guarantee does not constitute unlawful aid.”

This kind of scheme could be helpful, but it is yet to be seen if German NPLs will actually increase enough for it to make financial sense, Keibel added. German NPLs could reach EUR 45bn at the end of 2020 and EUR 59bn at the end of 2021, from EUR 33bn in 2019, according to a study by BKS.

And yet there is still no certainty such a grim forecast will come to pass.

“The question is, will we see a lot of new NPLs and credit losses?" asked Dennis Heuer, a partner at White & Case. "Is this going to be something attacking Germany and other countries outside of Southern Europe? No-one really knows.”

“It's a conceptual debate, not an official mandate,” Heuer said.

Other states such as France, Spain, Portugal, and Cyprus might on paper be potential candidates for a GACS-like scheme.

Advisors with expertise on the Italian and Greek experiences have reached out to central banks and ministries of finance across Europe to spread knowledge on the benefit of the schemes, the source close and the source familiar said.

Sales

Within a European NPL market mostly frozen so far in 2020 due to the uncertainty after the explosion of the COVID-19 pandemic, Greece and Italy have remained active.

Out of EUR 39.3bn deals closed so far this year, EUR 9.9bn or 25% were HAPS and GACS deals — EUR 7.5bn and EUR 2.5bn respectively — according to the *Debtwire NPL Database*. Among EUR 69.4bn currently live deals tracked by the database, EUR 31.6bn or 45.5% plan to use the schemes — EUR 23.5bn in Greece and EUR 8.1bn in Italy. Between 2016 and 2019 lenders in Italy disposed of EUR 81bn of NPLs in 25 such transactions.

At the end of 2Q20, NPL volumes at the largest banks in Italy were down from previous quarter, while they had increased in other European countries, which had been unable to keep on disposing, such as the UK, France, Spain and Ireland, a *Debtwire* analysis showed. NPL volumes in Greece were also down in 2Q20 from the previous quarter, a separate Debtwire analysis showed. The main difference between Italy and Greece and other European countries was the possibility to have state-sponsored tools.

“I can’t think of another government initiative supporting NPL deleveraging, which was not forced on the banks, that has been as successful as the GACS scheme and the HAPS scheme,” said Nicholas Colman, managing partner in Credit Portfolio Advisory International at Alantra.

“It is a win-win for governments, banks, but also for the market,” he added, given that junior and mezzanine notes are sold to investors in competitive processes. “Everybody is going to face an NPL problem due to COVID and we think even banks in low NPL countries like France, Germany, the Netherlands, the Benelux would benefit from having the same resolution tools available to [them] as Greece and Italy,” he said.

The involvement of private players, Colman pointed out, makes the process of resolution faster than transfers to a public player such as a bad bank. Banks and servicers are more experienced in recovery and resolution strategies compared to the public sector, he noted. "This would mean a faster and more efficient tackling of the mounting NPLs but, importantly, would allow banks to get back to what they do best — lending to the real market to help stimulate the real economy," Colman said.

“Experience of the 2008 financial crisis shows us that it is best to tackle NPLs early and decisively to prevent NPLs from accumulating and dragging on the recovery,” the EC spokesperson said, explaining the reasoning behind tomorrow’s round table.

Debate

The debate over addressing the NPL problem at European rather than national level remains open, however.

“How do you distinguish if a bad loan is because of COVID-19 , or just a poorly underwritten one in the beginning?" said Gordon Kerr, head of European structured finance research at DBRS Morningstar. "I don’t know if some of these countries will be happy to effectively sponsor another country’s banks underwriting."

There are potentially ways to work a bad bank scheme that would be more digestible by the market and not go against BRRD legislation, but GACS-style securitisation offers a “tested method for the market”, Kerr said, which does not require “collective risk taking”.

Another approach could expand GACS-style securitisations to the European level, some point out.

“The most reasonable solution should be a guarantee scheme similar to GACS that could be applied at an EU-wide level,” said Massimo Famularo, head of Italian NPLs at advisory firm Distressed Technologies.

Easy derecognition of bad assets transferred to SPVs without immediate losses, public intervention limited to a guarantee, and involvement of market players, are the main benefit of the schemes, Famularo said. Furthermore, GACS “gives Italy a sort of already approved state-aid instrument for the sale of NPLs”, which it would be fair to extend to other countries.

by Alessia Pirolo and Amy Finch