

# NPL DEVELOPMENTS

**16 DECEMBER 2021**



# AGENDA

## WELCOME AND INTRODUCTION

- Dr. Christian Thun, CEO, European DataWarehouse

## NOVEMBER ECB FINANCIAL STABILITY REPORT: CREDITOR COORDINATION IN RESOLVING NON-PERFORMING CORPORATE LOANS

- Edward O' Brien, Advisor, European Central Bank

## THE NPL MARKET IN ITALY: PRESENT SITUATION, FUTURE PERSPECTIVES, THE ROLE OF TECHNOLOGY

- Gabriella Breno, CEO, Prelios Innovation

## IMPLEMENTATION OF THE SECONDARY MARKETS DIRECTIVE: IMPLICATIONS FOR THE EUROPEAN NPL MARKET

- Michela De Marchi, Secretary General, UNIREC

## ROUNDTABLE

- All speakers

# **WELCOME AND INTRODUCTION**

**DR CHRISTIAN THUN, EUROPEAN DATAWAREHOUSE**

# **NOVEMBER ECB FINANCIAL STABILITY REPORT**

**EDWARD O'BRIEN, EUROPEAN CENTRAL BANK**



EUROPEAN CENTRAL BANK

EUROSYSTEM

# Creditor coordination in resolving non-performing corporate loans

EDW NPL developments Webinar

16 December 2021

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### Creditor coordination in resolving non-performing corporate loans

Prepared by John Fell, Miha Cajnko, Maximilian Fandl, Maciej Grodzicki, Claudia Mayer, Edward O'Brien, Martina Spaggiari and Pär Torstensson<sup>[1]</sup>

Published as part of the [Financial Stability Review, November 2021](#).

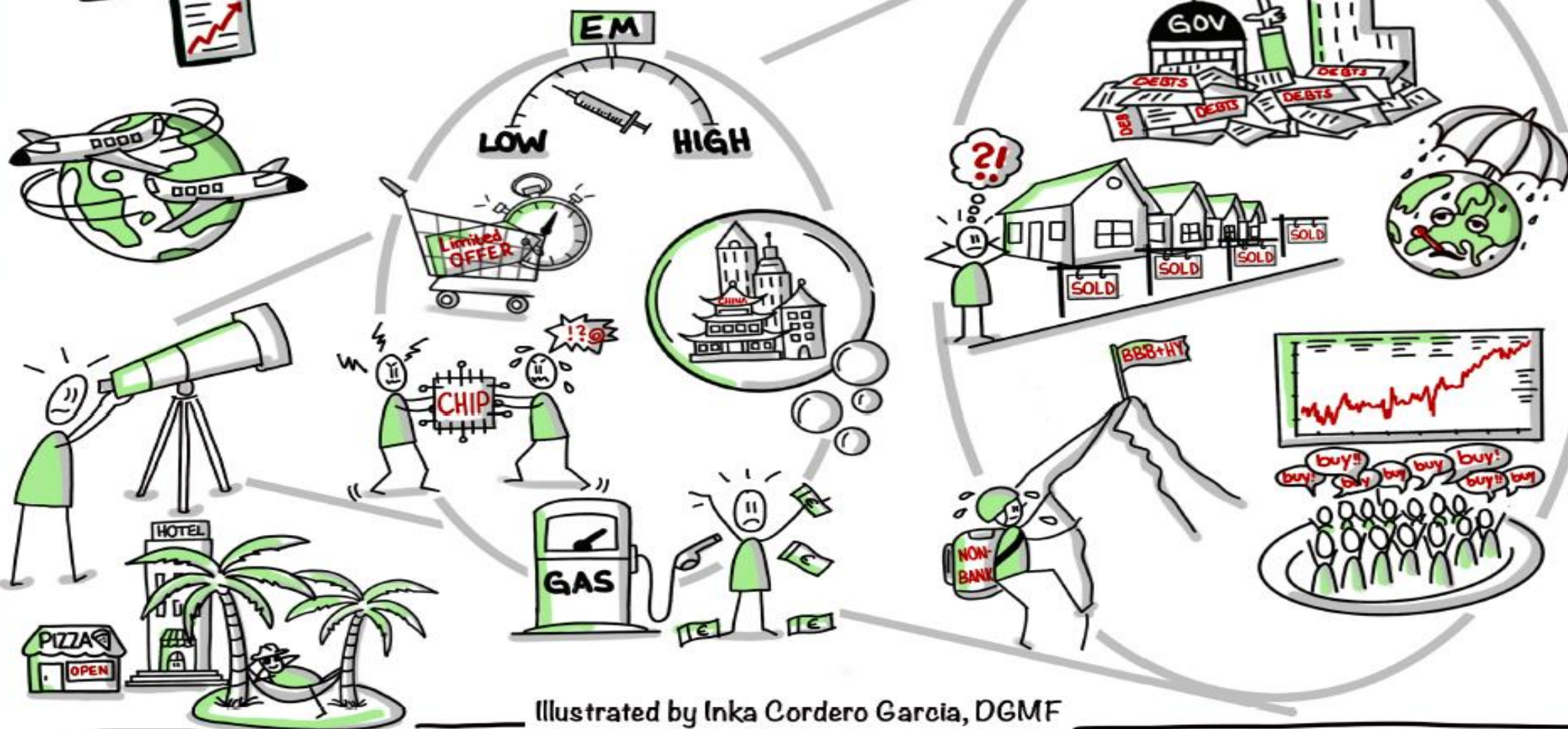
*Numerous European and national initiatives have been launched since 2014 to reduce non-performing loan (NPL) stocks on euro area bank balance sheets. NPL ratios have fallen as a result, but very gradually, mainly thanks to sales to non-bank investors. Despite stronger market activity, prices paid by NPL investors have only improved marginally and continue to stand well below values assigned to NPLs by banks. One type of NPL that has proven particularly difficult to resolve is loans to non-financial firms that have borrowed from multiple banks – multi-creditor loans. Analysis of these and other loans finds lower provision coverage by the lending banks, reflecting more optimistic valuations by individual banks and limited recognition of the expected costs of multi-creditor coordination. This special feature proposes a strategy to overcome creditor coordination failures and costs, through the use of data platforms providing ex ante transparency to NPL investors. These, together with NPL securitisation, could substantially reduce the gap between the*

#### Creditor coordination in resolving non-performing corporate loans

- 1 Introduction
- 2 The creditor coordination problem as a source of market failure
- 3 Market-led solutions to creditor coordination problems
- 4 Conclusions

**Edward O'Brien**  
Directorate General Macroeprudential Policy and Financial Stability

# FSR Nov 2021



Illustrated by Inka Cordero Garcia, DGMF



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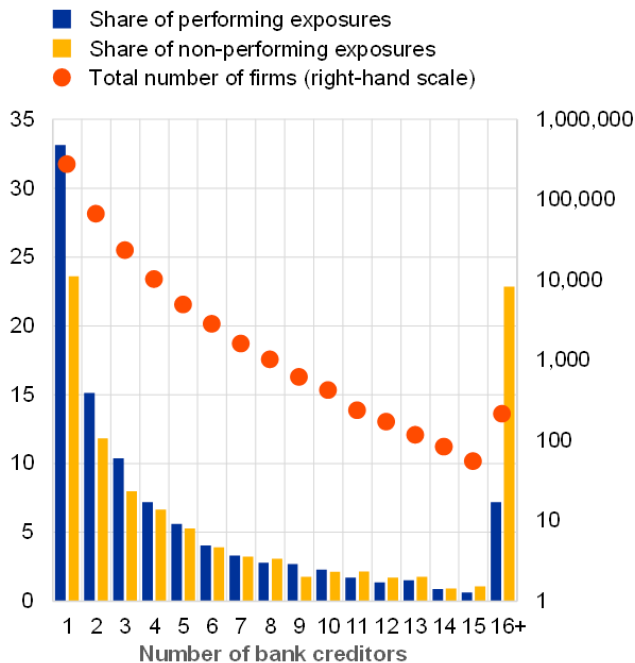
## Creditor coordination in resolving non-performing corporate loans

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# Multi-creditor lending relationships are common and tend to be resolved less efficiently than single-creditor loans

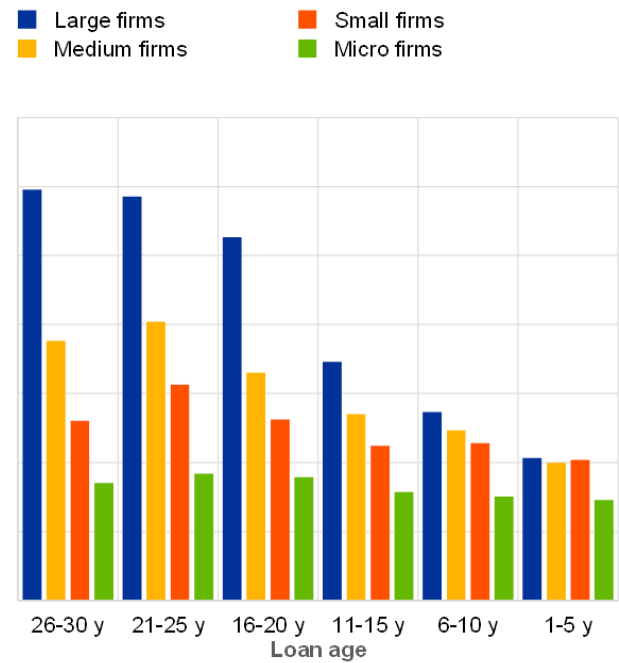
a) Distribution of performing vs. non-performing exposures by number of banks extending credit to the same firm

(end-2020, left-hand scale: percentages; right-hand scale: number of firms)



b) Average number of bank creditors by firm size and loan age

(end-2020, number of creditors)

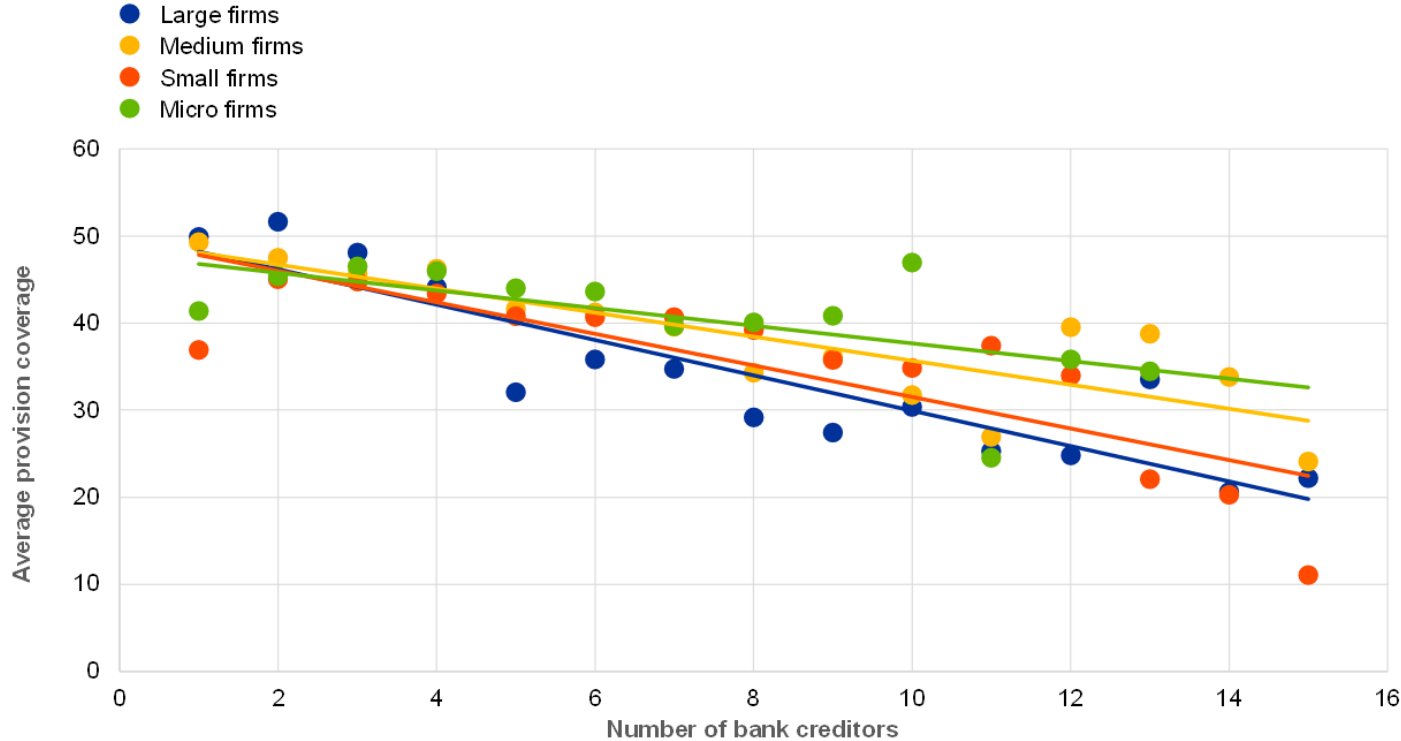




# Multi-bank credit relationships are associated with lower provision coverage

Provision coverage by number of bank creditors and firm size

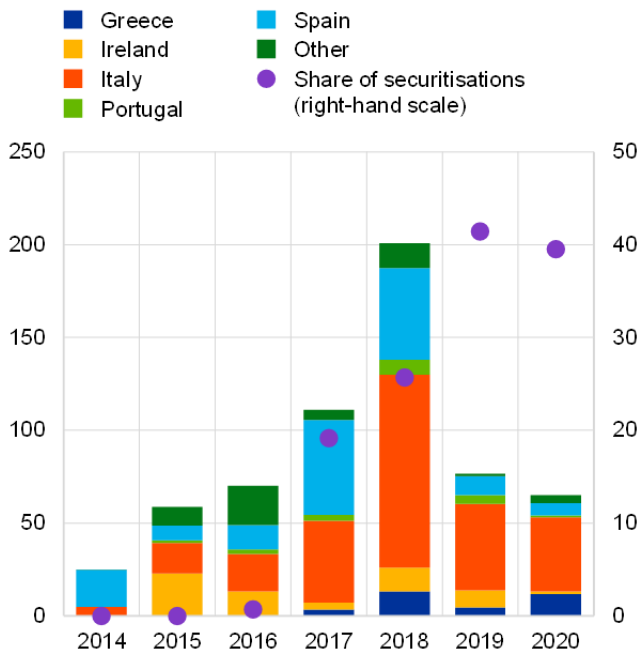
(end-2020, percentages)



# NPL markets have grown rapidly since 2014, while transaction prices reflected the collateralisation of loan portfolios

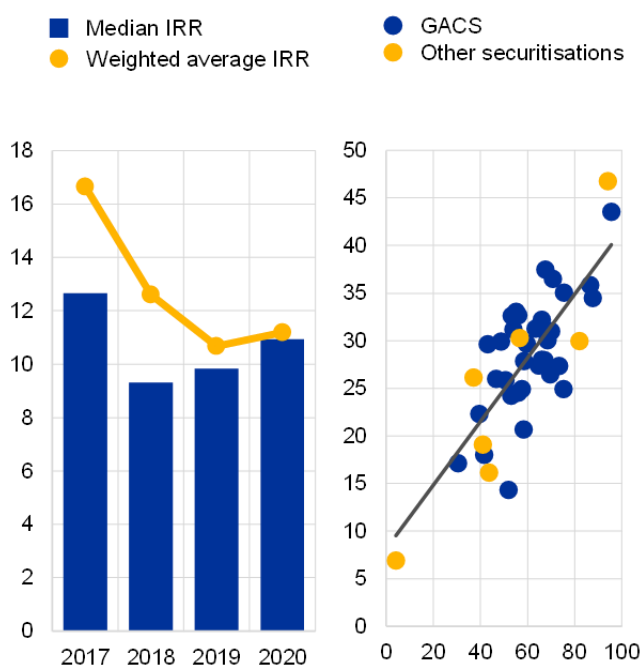
a) Gross book value of NPL sales and securitisations in euro area countries

(2014-20, left-hand scale: € billions; right-hand scale: percentage share of securitisations in total NPL sales and securitisations)

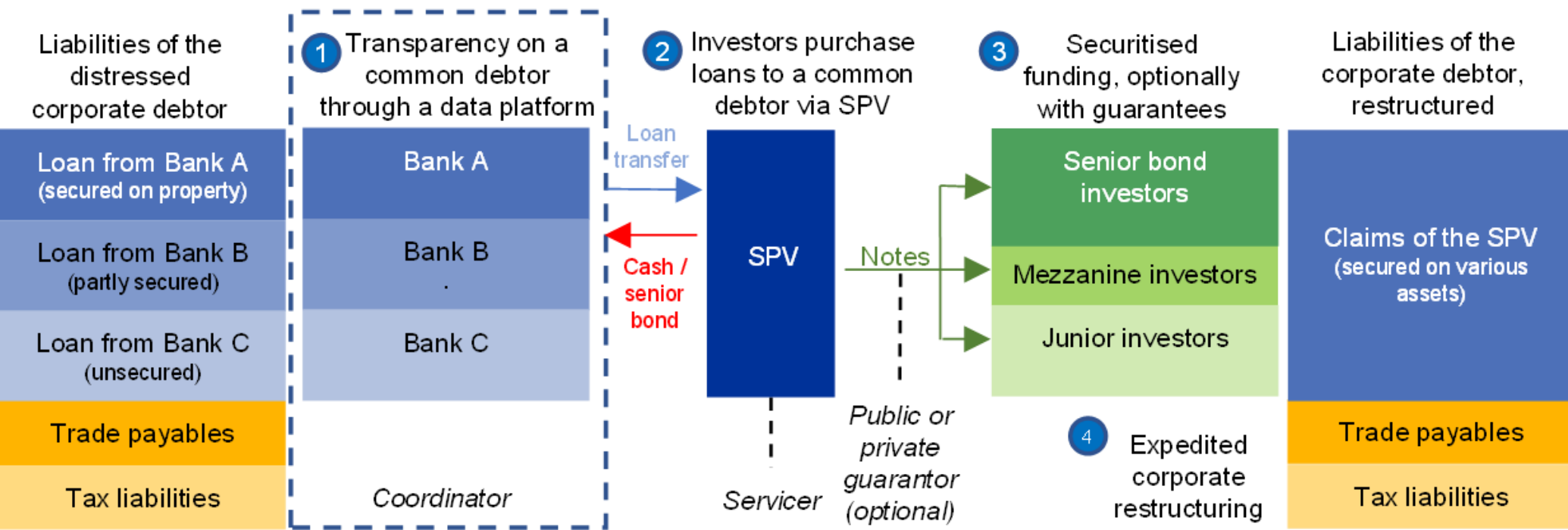


b) NPL pricing in the euro area (left chart) and in Italy (right chart)

(left chart: 2017-20, internal rate of return, percentages; right chart: 2016-20; x-axis: share of secured assets in the portfolio, percentages; y-axis: price, percentage of gross book value)



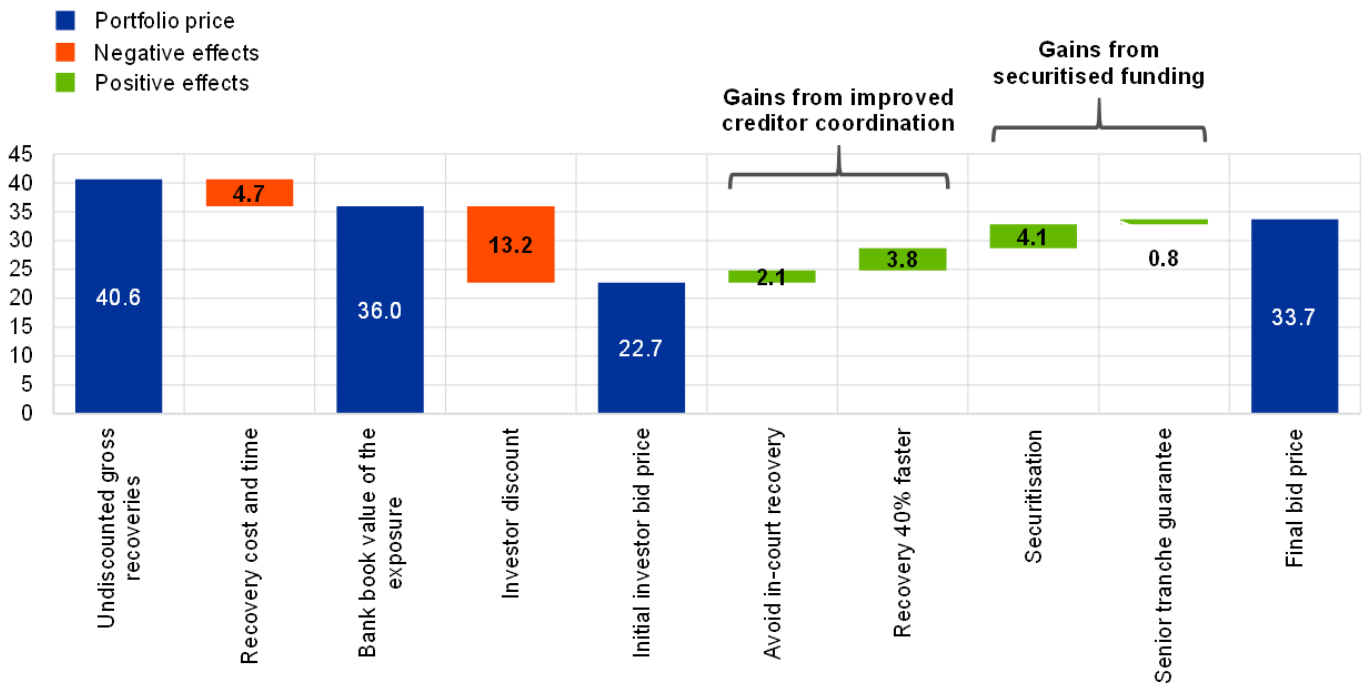
# Schematic outline of a securitisation-based approach to working out multi-creditor corporate NPLs



# Improved creditor coordination may generate a sizeable increase in prices of multi-creditor NPL portfolios

Illustrative example of the impact of improved creditor coordination and securitisation on NPL portfolio pricing

(percentage of gross book value)



# **THE NPL MARKET IN ITALY**

**GABRIELLA BRENO, PRELIOS INNOVATION**



# The NPL market in Italy: present situation, future perspectives and the role of technology

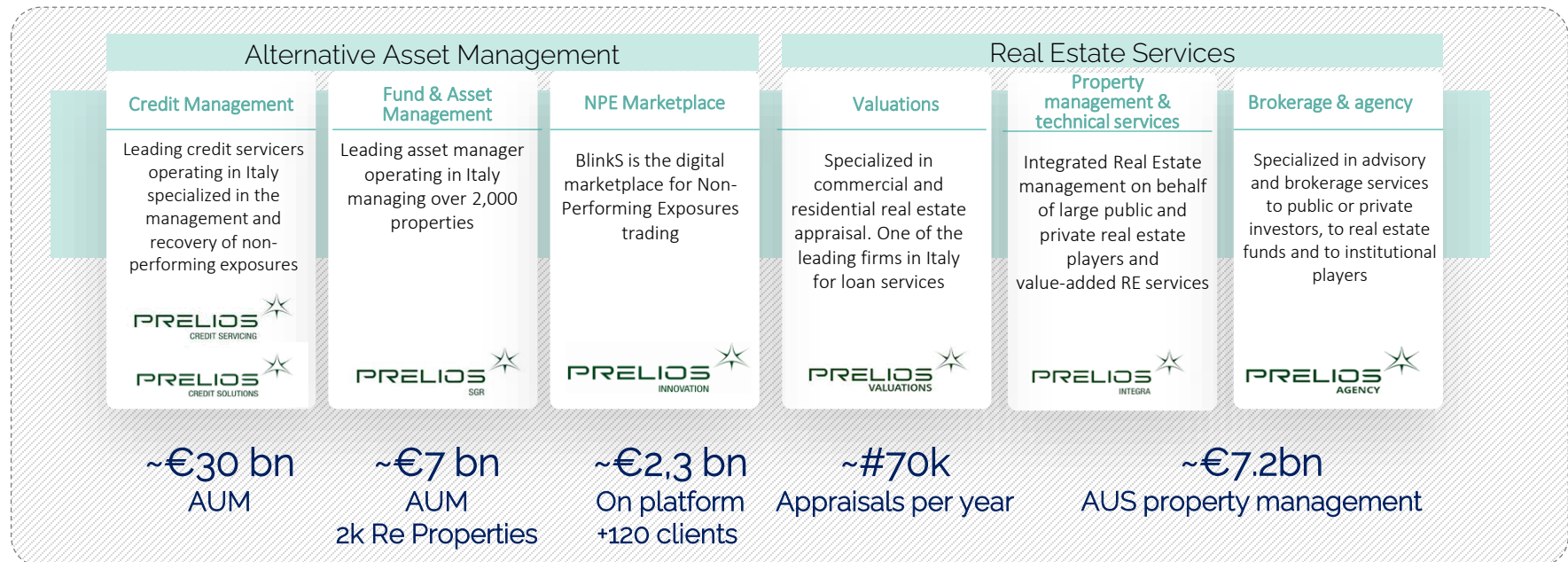
*Gabriella Breno, CEO, Prelios Innovation*

*Milan, December 16<sup>th</sup> 2021*



Prelios is the only fully integrated platform in Italy, operating across the alternative asset management and Real Estate industry with:

- +30 years track-record
- unique expertise in NPE management: UTP first mover and best performer in GACS transactions
- a recognized leadership in all Real Estate services sub-sectors
- pioneering approach on leveraging new technologies to innovative and cost-effective solutions

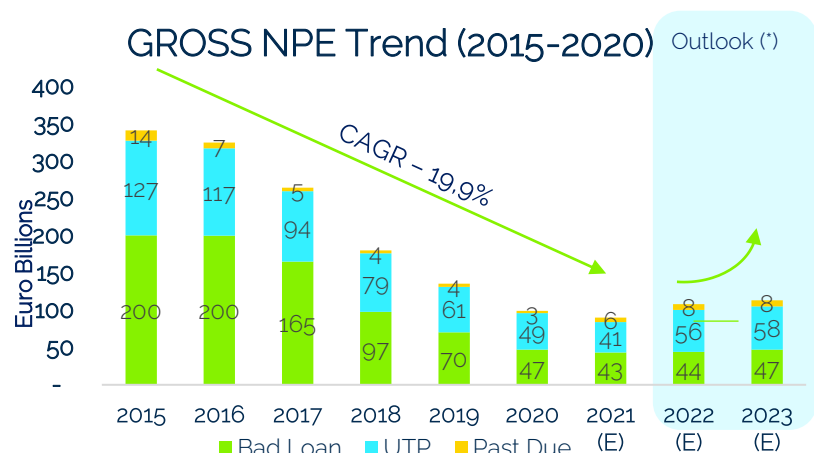




## Agenda

1. Italian NPE Trends
2. GACS securitizations evolution: from unknown tool to market maker
3. Covid-19 impacts
4. Market perspectives: further NPE disposals or management outsourcing?
5. Technology to support NPL and UTP cycle
6. Technology and NPE: an even stronger connection

# 1. Italian NPE Trends



Year	Bad Loans	UTP	Past Due	Total*
2015	200	127	14	341
2016	200	117	7	324
2017	165	94	5	264
2018	97	79	4	180
2019	70	61	4	135
2020	47	49	3	99
2021 (E)	43	41	6	90
2022 (E)	44	56	8	108
2023 (E)	47	58	8	113

(\*) Source - Banca IFIS Market Watch NPL 2021

## Where we are

After peaking at €341 bn, in 2015, the NPE stock decreased, reaching an amount of €90 bn at YE2021 (expected).

The decreasing trend has been mainly led by NPL disposals transactions characterized by public guarantees, so-called GACS.

This trend has assigned a crucial role to the Servicers in charge of managing and collecting NPE coming from the primary market (banks).

## Outlook 2022-2023\*

Although the NPE trend has constantly been decreasing since 2015, for 2022-23, we expect a new NPE flows in a range between € 70-100 bn

The main causes of uncertainty about the future trends are:

- Increase of credit risk in the performing credit bulk (for Italian banks, stage 2 reached 14% in the 1st quarter of 2021 from 9% in 2019).
- The expiring of Covid 19 relief measures (ie. Moratoria - Public Guarantee - other incentives)
- Banking system post COVID-19 reaction

## 2. GACS securitizations evolution: from unknown tool to market maker

### EVOLUTION

GACS "Garanzia sulla Cartolarizzazione delle Sofferenze".

Since 2016, the Italian Government has provided a guarantee on the repayment of senior notes.

The guarantee aims at reducing the bid-ask price spread between originators (selling banks) and investors through:

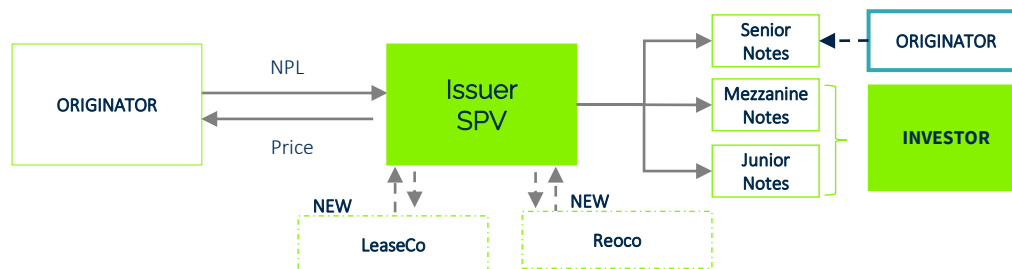
- Lower IRR requested by Investors
- Shared of Risk (i.e multi-originator)
- Involvement of Rating Agencies and Specialized Servicers

In 2019 the new GACS framework introduced:

- Instruments to help SPVs adopt defense collections strategies for secured loans through a proactive approach to real estate asset management (i.e. Reo.Co).
- The possibility to add a new asset class (leasing through the Lease.Co)The GACS has been renewed until June 2022.

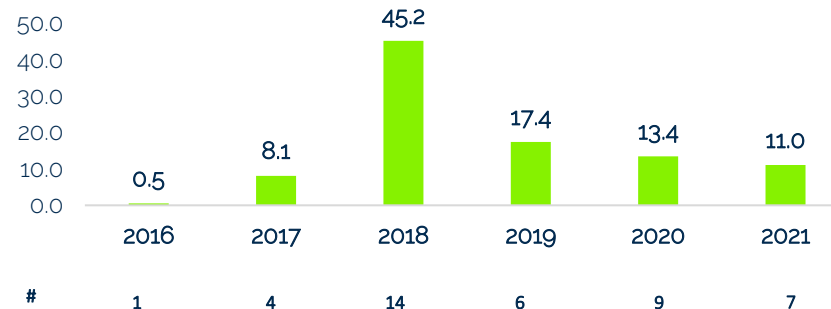
The GACS has been renewed until June 2022.

### GACS Structure



### GACS on the Italian market

€ Bln GACS transaction since inception (GBV/ € Bln)



€ 95,5 bln

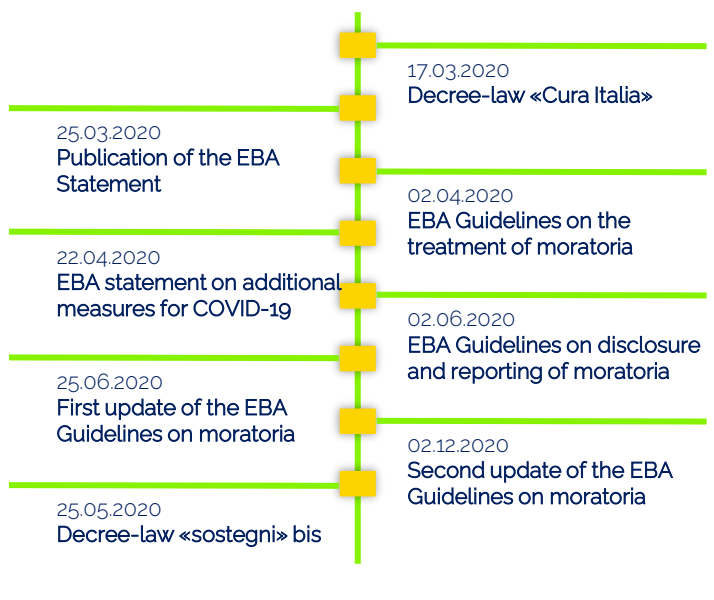
41 deals

(\*) Source: Internal Database – in 2021, 2 deals are under closing by 31/12/21

### 3. Covid-19 impacts

As mentioned, the 2021 confirmed the decreasing trend of NPE Stock, positively influenced by many EBA and Italian Government initiatives to cope with the Covid – 19 pandemic impacts.

#### Covid 19 EU Initiatives



#### NPE Classification

The new NPE classification criteria have been mitigated (until YE 2021) (ex: IFRS 9 staging allocation 1 to 2 and Past due days detection have been temporarily revised)

#### Focus on Italian covid -19 initiatives

##### Moratoria

Extension until 31 December 2021 of moratoria for Italian SMEs already admitted to the support measure (Ex lege maturity renewal and on borrower request)

##### Public Guarantees

Possibility to obtain a public guarantee on medium / long-term loan portfolios (Guarantee issued by Fondo Garanzia and SACE)

##### Tax Benefits

Extension until December 2021 of the tax benefit related to the disposal by Banks of non-performing loans, previously granted until December 2020.

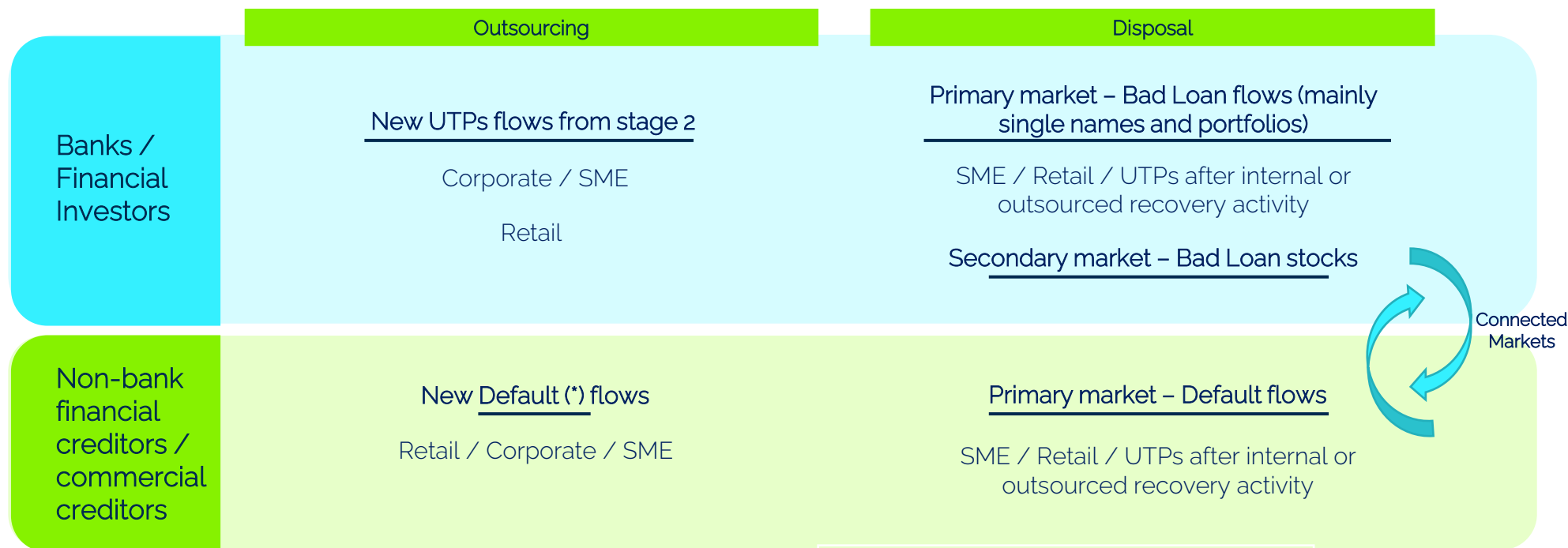
n. 695 k applications for € 27 bln (\*)

n. 2,5 mln applications for € 217 bln (\*)

(\*) Source - <https://www.fondidigaranzia.it>

## 4. Market perspectives: further NPE disposals or management outsourcing?

For 2022 we expect by Banks an opportunistic approach to disposal or outsourcing strategies based on asset class and type of originators:

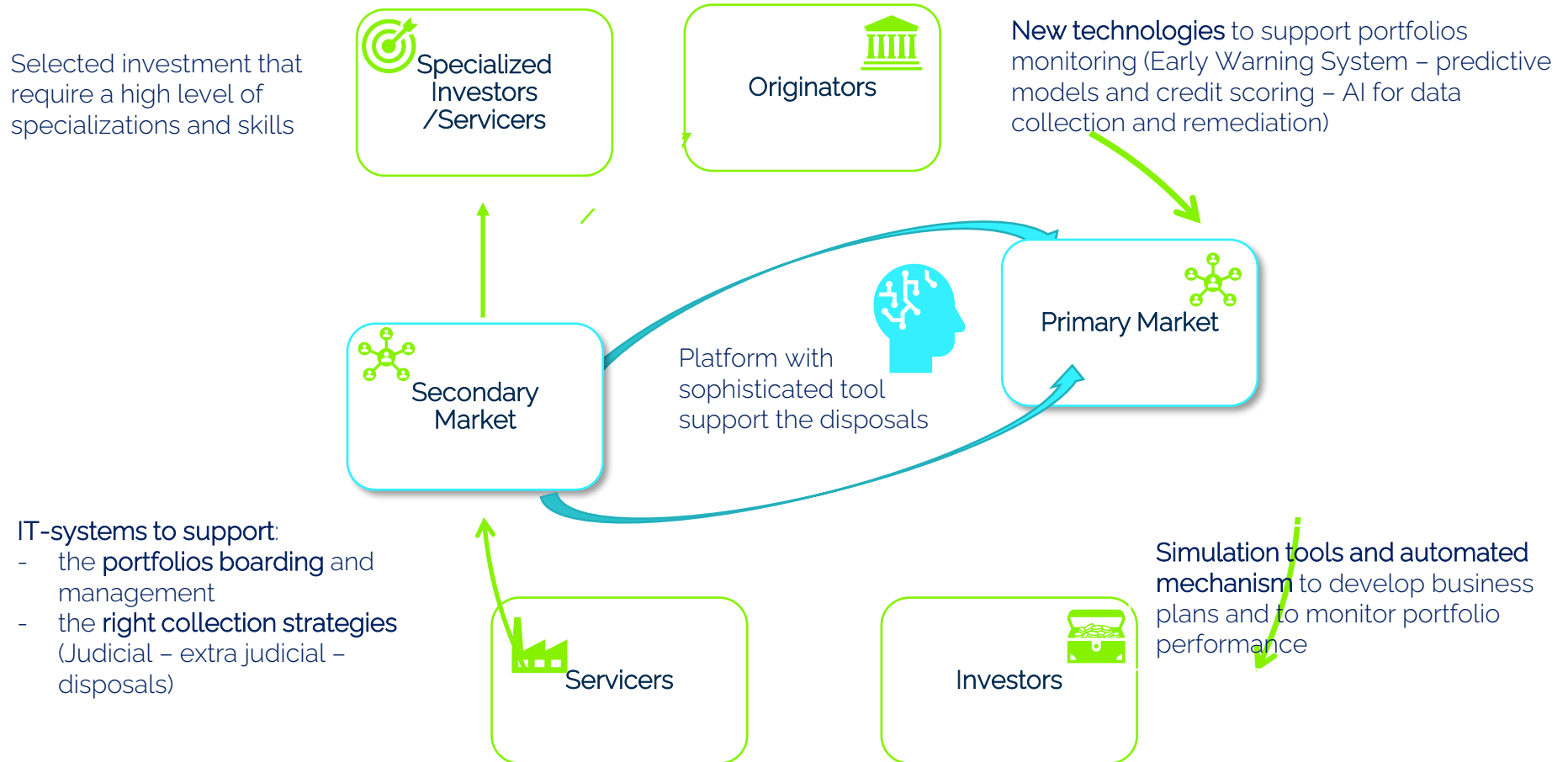


(\*) Default = > 90 past due days



For 2022-23 we expect significant NPE disposal on UTPs, since undergoing discussions about the possible extension of the GACS scheme to UTPs files.

## 5. Technology to support NPL and UTP cycle



## 6. Technology and NPE: an even stronger connection

ECB in its recent Annex C to the Financial stability review (\*) has suggested new approaches to the NPE issue:

- Recent experience with securitizations highlights the **potential for private sector-led schemes to resolve NPLs** without the need for public sector sponsorship and the State aid implications of a system-wide AMCo
- **Transparency** on common debtor relationships among banks could be delivered by **data and coordination platforms**
- Once multi-creditor relationships are identified, investors may **purchase a distressed firm's claims from multiple banks** to obtain a qualified majority of the debt
- More efficient creditor coordination would improve the pricing of **multi-creditor corporate loan portfolios**, leading to better outcomes for **banks and non-financial firms**
- Such schemes may be best suited for **medium-sized and large companies willing to sell their commercial claims**, and could be **open to non-bank creditors**



(\*) [ECB 11/2022 - Creditor coordination in resolving non-performing corporate loans](#)



# **IMPLEMENTATION OF THE SECONDARY MARKETS DIRECTIVE**

**MICHELA DE MARCHI, UNIREC**

# **ROUNDTABLE DISCUSSION**

**DR CHRISTIAN THUN, EUROPEAN DATAWAREHOUSE**

**GABRIELLA BRENO, PRELIOS INNOVATION**

**EDWARD O'BRIEN, EUROPEAN CENTRAL BANK**

**MICHELA DE MARCHI, UNIREC**

# THANK YOU // CONTACT US

## EUROPEAN DATAWAREHOUSE GMBH

**Walther-von-Cronberg-Platz 2**

**60594 Frankfurt am Main**

 **[www.eurodw.eu](http://www.eurodw.eu)**

 **[enquiries@eurodw.eu](mailto:enquiries@eurodw.eu)**

 **+49 (0) 69 50986 9017**

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