

Greek NPL market evolving; securitisation expected to play a big role



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Solutions to resolve the Greek NPL problem are starting to emerge, attracting international players keen for a piece of the EUR 90bn market. Securitisation could be an important tool for the banks to hit ambitious deleveraging targets.

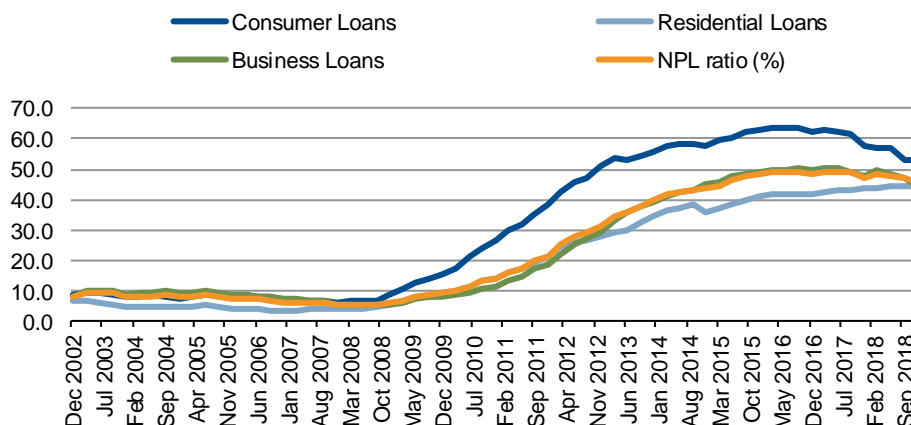
The market for Greek NPLs is expected to pick up in 2019 following a series of regulatory and market developments. But caveats remain. "Greek banks, with the exception of Eurobank, do not have enough capital to sustain large disposals today," said David Bergman, head of structured finance at Scope Ratings.

"An external trigger in the form of the Asset Protection Scheme (similar to Italy's GACS scheme proposed by the Hellenic Stability Fund) or the establishment of an Asset Management Company (proposed by the Bank of Greece) would speed up the process, but nothing is expected to emerge before the autumn at the earliest. And from a market perspective, bid-ask spreads are wide due to the lack of historical data," Bergman said.

The market infrastructure for NPLs in Greece is developing fast. There are 18 licensed servicers, for example, even if most are small and have set up recently so are not in a position to share much historical performance data. The banks have not really recovered significant amounts either so cannot really supply historical information that could help form a view of future recoveries.

Greece's four systemic banks – Alpha Bank, Eurobank, National Bank of Greece and Piraeus Bank – have all sold NPL portfolios in the past year. In recent days, Piraeus Bank sold, subject to approval, a EUR 507m GBV corporate NPE portfolio to Davidson Kempner for EUR 240m. The bank also reached agreement, separately, with Intrum to sell 80% of its Recovery Banking Unit for EUR 328m. Intrum will act as servicer on the bank's EUR 28bn NPE and REO portfolios for an initial 10-year term. The NPEs will be transferred to a securitisation SPV.

Figure 1: Greek NPLs



Source: Bank of Greece

New laws and online portal

On the regulatory side, a new law protecting more vulnerable borrowers has been passed containing clear criteria for which borrowers can be eligible. Application to join the loan restructuring scheme must be done on an online portal. If the application is approved, the bank will restructure the loan and the borrower will have to pay instalments. The State will provide a subsidy for up to 30% of the instalments.

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If borrowers fail to meet instalments on their restructured loans, creditor banks will be free to foreclose, albeit through the courts. The expectation is that some borrowers will switch from the current suspension which is provided for by the Katseli law, where no subsidy can be received.

“There is a lot of hope and expectation that a large number of people will apply for the new protection, get approvals so start to pay instalments,” said Bergman. “Many borrowers are currently protected under the Katseli law, with loans suspended awaiting court decisions as to whether they are eligible, which is expected to take years.

“Given that the online portal is not yet up and running and some secondary laws to implement the new protection law are missing, it remains to be seen if the switch to the new law and start of payments will actually be that fast.”

Legal procedures in Greece have historically taken around seven years, although there is limited data owing to changes made to insolvency laws after 2014. An expected freeing-up of court resources when borrowers switch from the old Katseli law is expected to cut this to two to four years in the future, although there is little empirical data to really support that claim.

“There is the possibility to sell properties through e-auctions, but so far the buyers have mainly been the banks, thereby transforming NPLs to REO exposures,” Bergman observed

I. Appendix: EC enhanced surveillance

In its enhanced surveillance reports (February 2019 and an April 2019 update), the European Commission acknowledged Greece's progress in implementing reform commitments, notwithstanding specific outstanding items. One of the items flagged in February as a cause for concern related to the pace of progress and degree of priority attached to measures to restore the strength and resilience of the banking sector, in particular regarding asset quality.

The April report, however, noted that Greece had provided relevant updates on measures to support NPL resolution and banking sector stability (e-auctions, State guarantees, household insolvency action plan); as well as primary legislation on a new scheme for primary residence protection, with commitments to secondary legislation.

The February report pointed to shortcomings in the legal frameworks for the implementation of commitments relating to the NPL resolution framework. But the Commission noted the further action taken in several areas, including a legislative amendment and an updated action plan for processing of State-guaranteed loans. A way forward was also outlined to address the issue of court-ordered e-auction postponements.

The Commission called for proposals to deter abuse by strategic defaulters via last-minute petitions for postponements in the context of the implementation of the new system of primary residence protection and of the household insolvency (Katseli) law. Greece is also addressing the issue of failed auctions. Authorities delivered data on pending cases re: the household insolvency framework, with a target to eliminate the backlog by 2021.

On NPLs related to primary-residence protection, legislation is in place for a new system aiming to support NPL restructuring following expiry of the Household Insolvency (Katseli) law. Primary legislation for the new scheme was adopted on 29 March; secondary legislation related to the new electronic platform, State subsidies and the valuation of assets included in wealth criteria is in process.

Via the new scheme, eligible borrowers in arrears on loans secured by their primary residences can apply for a restructuring of housing and business loans, either by reaching agreement (online) with creditors on standardised restructuring proposals, or through the courts. Borrowers will be protected from foreclosure on their primary residence as long as they meet payments on their restructured debts; they will receive a 30% State subsidy on their instalments.

The scheme applies a mandatory haircut to principal exceeding an LTV of 120%. Instalments will have a standard duration of 20 years capped when the borrower reaches 80 years of age.

The inclusion of business loans raised concerns as it expands the scope of protection to a new category of borrowers not covered by the Katseli legislation and without assessing the viability of the businesses. As such, it is less clear how many applications there will be and how well the capacity of the system (including courts and the State subsidy mechanism) will cope.

From a financial stability perspective, impact assessments indicate that larger debt write-offs will be required compared to residential mortgage loans so the impact on banks' capital is comparatively high. The Commission is concerned that if the scheme does not function, banks may be less willing to extend secured loans to small businesses using primary residences as collateral.

As regards eligibility for the new scheme, the size of outstanding loans is capped at EUR 130,000 per creditor for residential mortgage loans and EUR 100,000 for business loans. The wealth threshold is EUR 15,000 for liquid assets of borrower, spouse and dependents; EUR 80,000 for immovable assets and vehicles. The annual income threshold is EUR 36,000. The threshold for the value of protected residences was upped from EUR 180,000 (under the Katseli law) to EUR 250,000 for household loans and EUR 175,000 for business loans.

The automated electronic platform could result in a satisfactory number of restructurings, with limited (yet non-negligible) risks of subsequent litigation that could add to existing backlogs. If the platform fails to result in restructuring agreements, debtors can file restructuring requests with the court, albeit with strict timelines for cases to be heard.



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