

DISTRESSED DEBT YET TO FLOOD THE MARKET - URÍA MENÉNDEZ

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Practical barriers have so far prevented significant distressed debt sales in Spain but this may change over the coming months

The predicted flow of distressed debt and fund vulture investors into Spain has yet to materialise but the signs are that international investor interest remains and deal levels may yet rise, says Ingal Alonso, corporate and restructuring partner with Uría Menéndez in Madrid. "The real estate sector was the first and most hard hit by the financial crisis and it is here we have seen most of the relatively few distressed debt deals that have occurred. But the flow has not been significant with the main transactions having seen funds take relatively small stakes in some of the major insolvent

developers."

There are practical pre- and postinsolvency reasons why significant levels of distressed investment has yet to materialise, says Alonso.

El flujo previsto de deuda morosa y "vulture funds" en España tiene que aún que materializarse pero hay signos que indican que el inversor internacional permanece y que los niveles de operaciones pueden incrementar, dice Ángel Alonso de Uría Menéndez en Madrid.

"Under Spanish law, an investor who buys credits after insolvency has no voting rights so there is no guarantee of influencing any pre-existing creditors' agreement. And significant in preinsolvency situations are the provisions imposed on Spanish banks – often the major creditors – to make a 25% loss provision in the event of a debtor company entering insolvency.

Consequently few have so far been willing to take an even more severe 'hair cut' and sell on debts at an even more deeply discounted rate."

The past year has in any event seen an increase in debt-for-assets swaps across the real estate sector, with many domestic banks preferring to accept assets in lieu of foreclosure, he notes.

"What is different has been the position taken by many foreign banks, which have a different loss provision requirement, and have proven more willing to sell credit or assets to investors."

But the domestic banks may begin to take a different view as the recession spreads across the economy, and has more impact on the industrial sector where companies have higher revenues and many have significant business operations outside of Spain.

"As the industrial sector begins to suffer we may see more interest in the options presented by funds with cash, especially as the Bank of Spain is also expected to increase the loss provisions banks must make. Many banks may therefore be much more willing to explore pre-insolvency sales," says Alonso.