

# LAWYERS IN SPAIN SET TO ADVISE ON SALE OF €73BN OF 'BAD' LOANS

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## **With a strong appetite from investors for non-performing loans in Spain – and desire on the part of banks to sell – clients need legal advice on restructuring and acquisitions**

Law firms in Spain are set to receive instructions from clients interested in purchasing an estimated €73bn of non-performing loans that are ready to be sold by Spain's banks. Market insiders say lawyers, fund managers and bankers are all being kept busy by a surge of interest in non-performing loans (NPL) and distressed real estate assets in Spain. Books of non-performing loans recently up for sale have included those belonging to Cementos Portland, FCC and Fagor Electrodomesticos, among others. Miguel Lamo de Espinosa Abarca, resident London partner at Gómez-Acebo & Pombo, told an event held in London by Debtwire that recent legislation had been "very helpful in making distressed M&A and special situations transactions more achievable in Spain".

It is predicted that both the non-performing loan and real estate owned (REO) markets will continue to expand. This is because lenders are trying to improve their leverage, offset some of the riskier "bad debt" and take advantage of higher asking prices. It is estimated that Spanish banks have around €73bn worth of 100 per cent-written-off NPLs, most of which may be sold in the near future. "There is a clear appetite from investors, and sellers [financial institutions] want to sell in order to deleverage balance sheets and prices now match," explains Iñigo de Luisa, a partner at Cuatrecasas, Gonçalves Pereira. "Investors have also set up their recovery and asset management platforms which are ready to serve. In addition, sellers have already set up provisions in their accounts for these NPLs, so now selling these portfolios releases such provisions making it very attractive as well. It is a winning situation for both parties."

Lawyers acknowledge that the NPL and REO markets are very similar – indeed, practically the same thing – because the bulk of NPLs are in the real estate sector. In other words, the assets that many NPLs are linked to are REO. The exact value of the market is unclear but some sources predict the REO portfolios could even be worth up to €85bn.

### **Full-service firms will benefit**

Law firms are benefitting as investors seek advice on purchasing NPL portfolios. This is creating follow-on work too, as investors require help with the restructuring processes and the enforcement or insolvency situations that may arise once they are lenders of record. Lawyers suggest that the main beneficiaries will be the large firms with the resources to take a client from portfolio acquisition to complex NPL situations, for example.

"It is critical to have experienced teams for complex and large due diligence processes," De Luisa says of law firms' roles. "There will be a multi-practice team comprising litigators, finance, real estate, insolvency, public law and restructuring lawyers, as not all firms could handle adequately the needs of investors in these cases."

Other lawyers strike a note of caution regarding the future of the NPL and REO markets. Despite the recent surge, as portfolios balance out and market confidence returns, distressed loans will become less distressed so less attractive, they say.

"I am not sure if the NPL market in Spain is expected to grow in the coming years," claims Jose María Gil-Robles from Garrigues. "It will not be the case if the situation at a macro level keeps improving, even at slow pace."

Gil-Robles says that this year there was a decrease in the amount of NPLs held by the banks – around €170bn at the end of September, and in the delinquency or NPL ratio – around 13 per cent and expected to be around 12 per cent at the end of the year. He adds: "However, these numbers are somewhat distorted by the creation of SAREB – Spain's 'bad bank' – and the transfer at the end of 2013 by most troubled financial institutions of loans and real estate assets worth €51bn."