THE SUCCESSFUL TRANSFER OF NON-PERFORMING LOANS - BROSETA

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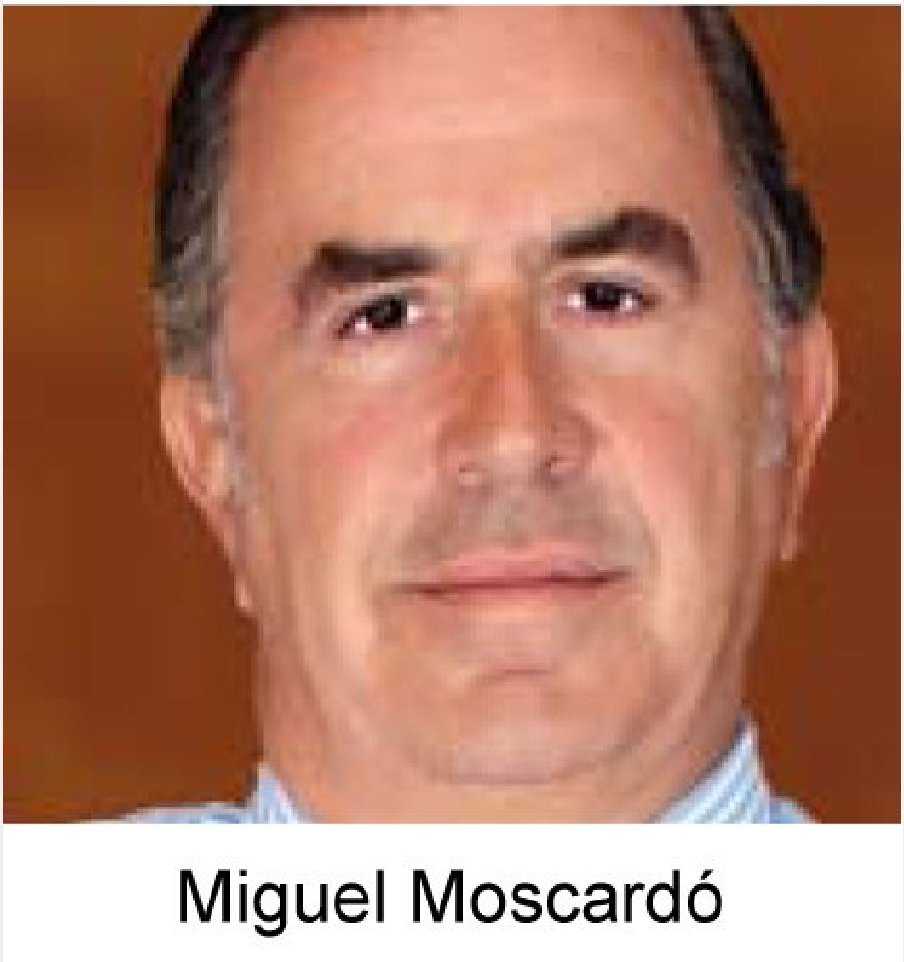

Category: [Uncategorized]

Investors are looking again at unsecured debt and mortgage portfolios but subtle differences exist between the opportunities available

With Spanish banks looking to clean their balance sheets, there is expanding interest among international investors to acquire non-performing loan portfolios, says Manuel Mingot, Finance Partner with Broseta in Madrid.

"We have seen funds, notably from the US and UK, looking at loan portfolios as possible investments. But there are differences in the type of loans being assessed; currently, we are seeing more deals involving unsecured loans than mortgages, for example. There are also subtle differences between distressed debt and discounted portfolio acquisitions."

Higher capital ratio requirements for banks, along with new demands to make provisions for real estate loan defaults, mean that many financial institutions are re-calculating the viability of entire loan portfolios, he says.

“Banks are undertaking a statistical exercise in terms of determining their current and potential future liabilities. A lot of property debt is being held, where the asset value has dropped significantly, while the lending policies engaged in by many finance companies prior to the downturn are also now coming back to haunt them.”

To date, there have been more deals involving unsecured debt – notably the transfer of credit card debt – often requiring injections of new capital and incentives for sellers based on portfolio performance. But it is in the real estate sector where there is new interest, but where a more considered approach is also required, says Mingot.

The transfer of mortgage loans may give rise to stamp duty, issues that have to be factored in to the investor’s assessment of relative risk and return.

“Some of the mortgage loan deals we have experienced have involved discounts of up to 80 percent on their paper value, carried out by funds, or other foreign banks, looking to expand their own portfolios either in niche geographic areas or specific property types. These are challenging times, but which continue to present opportunities for the brave.”