



# **“Greek banks after the recapitalisation: the agenda for NPL resolution”**

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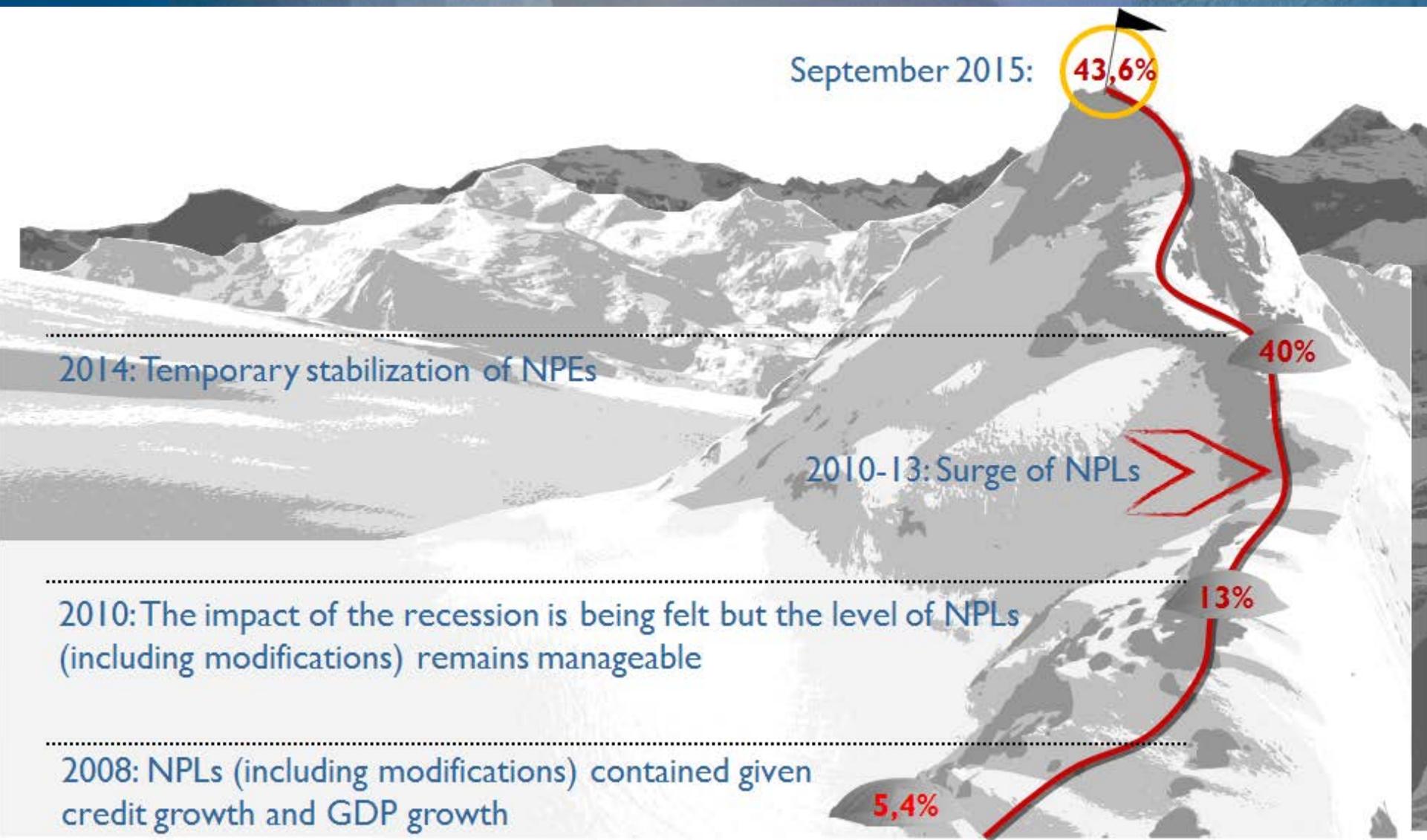
**Member of the BoG General Council and SSM Supervisory Board**

**EBRD / BoG Workshop: “Distressed loans in the Greek banking  
system: restructuring portfolios, reviving enterprises”**

**Athens, 10 March 2016**



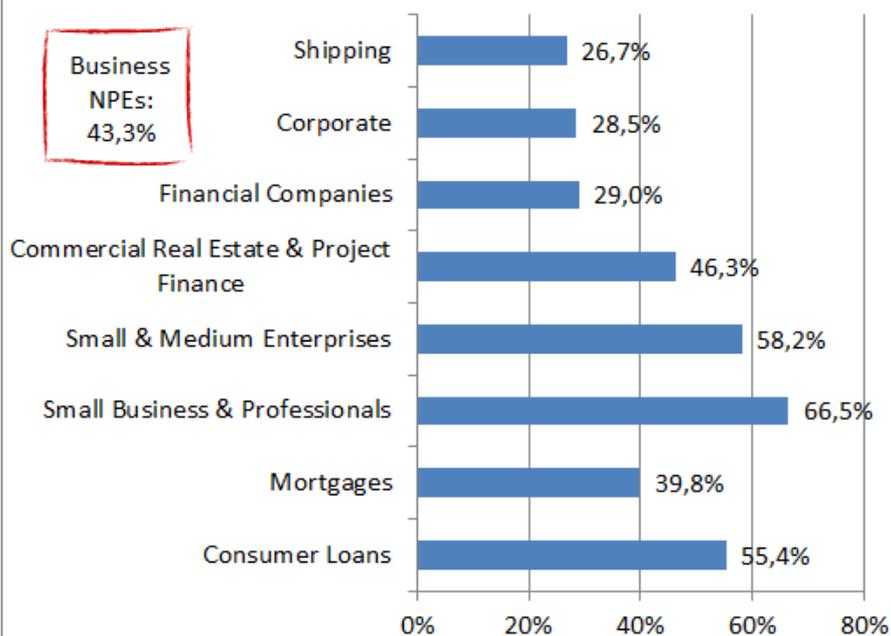
# The prolonged recession resulted in an unprecedented level of non-performing exposures (NPEs)...





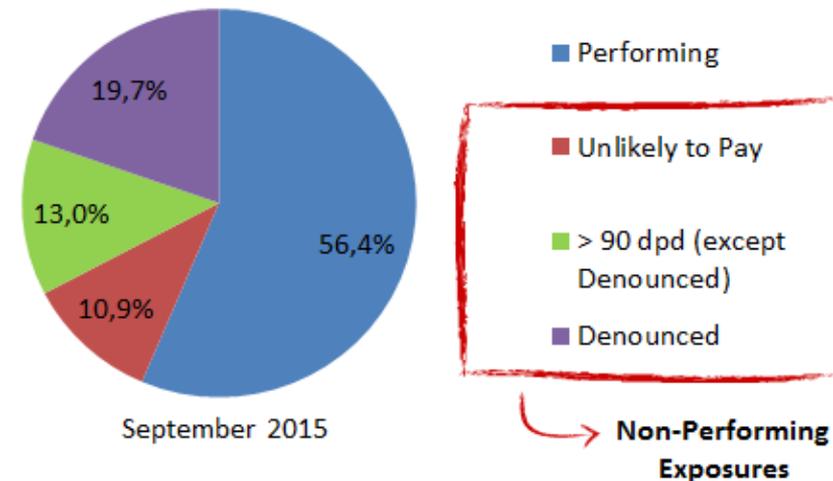
# ...spread across all asset classes; almost a fifth of loans has been denounced!

NPE ratio per asset class (September 2015)



Source: Bank of Greece

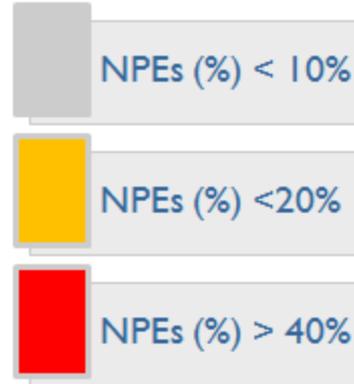
Exposures by performance status



Source: Bank of Greece



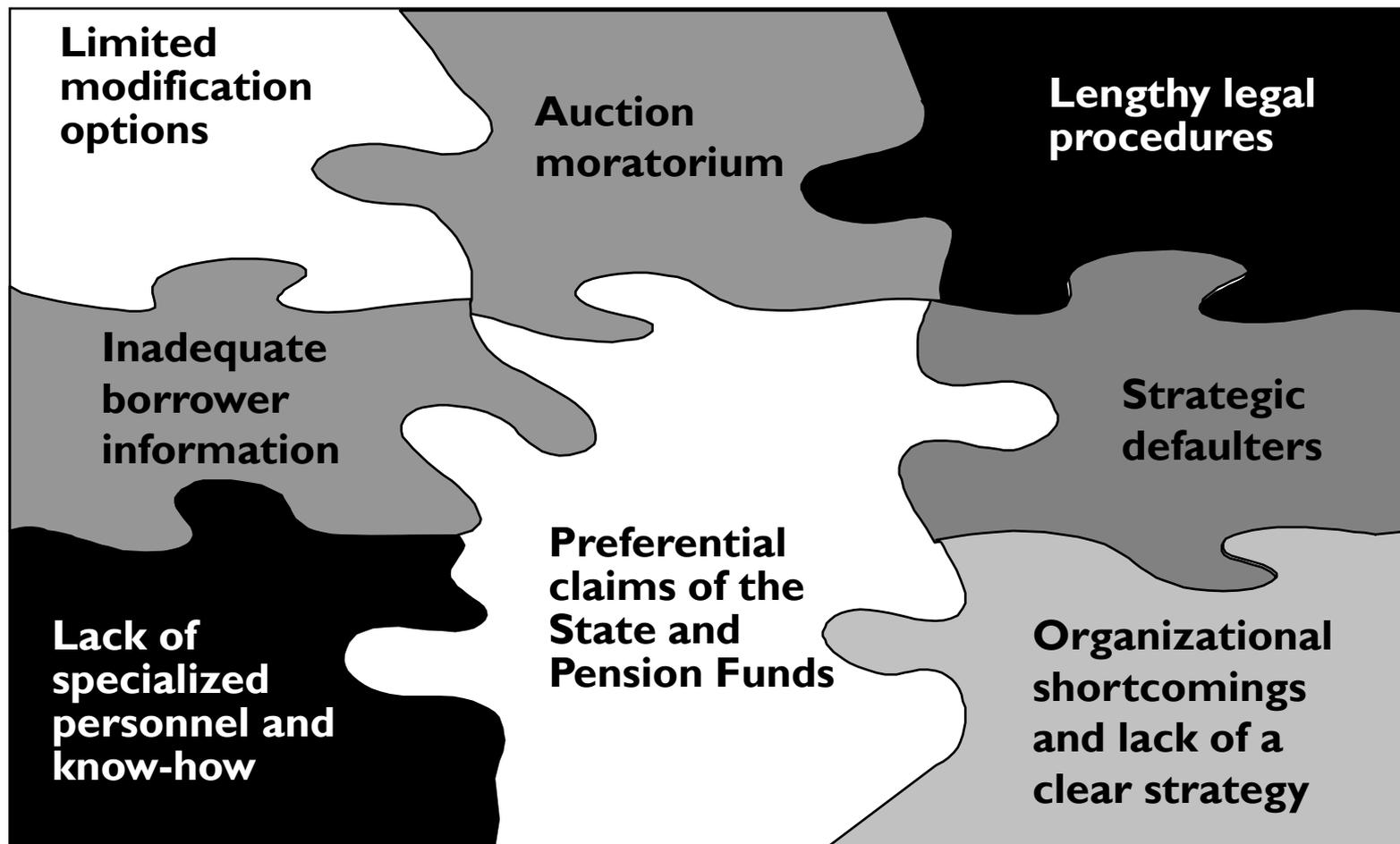
# The European context: Greece and Cyprus stand out



- Greek banks have the highest NPEs ratio in Europe along with Cyprus vs. an EU average of 5.9%
- Greece and Cyprus stand out even compared with other crisis-ridden countries
- Nonetheless, in terms of provisions coverage Greek banks are well placed compared to peers (48.8% vs. 43.6% EU average).



# Banks faced a number of impediments regarding efficient NPL management





# The authorities response: a national NPL resolution strategy; a pillar of the Third Memorandum

- The authorities, in cooperation with the Institutions, shaped in August 2015 a multi-faceted national strategy to promote efficient NPL management and resolution:
  - Deal with legal and administrative impediments
  - Adopt best practices
  - Ensure coordination of all stakeholders

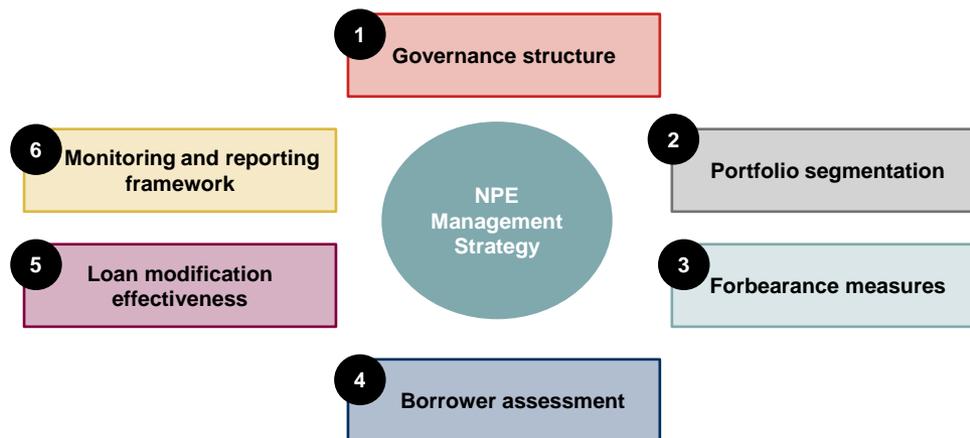




# Executive Committee Act 42/2014 on the supervisory framework for non-performing exposures (NPEs)

With the issuance of ECA 42/2014 the BoG aimed at introducing a harmonized framework and accelerating the efforts of banks regarding efficient NPE management, inter alia, by:

- Establishment of independent dedicated units for NPE management
- Explicit transfer criteria and appropriate segmentation of NPE portfolio
- Enhancement of modification options and toolkit
- Enhancement of borrower information and analysis
- Assessment of effectiveness of modification strategy
- Improvement of IT and MIS systems, as well as prudential reporting





# Improved prudential reporting on NPEs (ECA 47/2015)

With ECA 47/2015 (amending ECA 42/2014) BoG established a comprehensive prudential reporting framework for NPEs in Greece going beyond EBA requirements:

- **Template I – Portfolio Segmentation:**
  - Mortgages, consumer (2 sub-asset classes) and business loans (6 sub-asset classes).
  - Info on days past due, forbearance measures, accumulated provisions, collateral etc.
- **Template II – Collateral Analysis** (12 collateral types; quarterly changes)
- **Template III – Legal Workout Activities** (7 stages / actions).
- **Template IV – Flows of NPEs** (NPE flows within a quarter).
- **Template V – Business Loans by Sector** (15 sectors; 7 sub-sectors for manufacturing)
- **Template VI – Performance of Forbearance and Closure Solutions** (22 types; short-term and long term forbearance measures / closure actions)

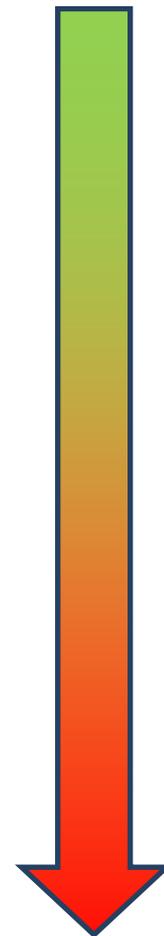
## Benefits:

- The most detailed reporting framework in the European Union
- Fostered the improvement of banks' IT and MIS systems
- Essential tool for the design and implementation of the BoG NPL strategy



# Forbearance and Closure Solutions: Classification

Forbearance and Closure Solutions		
1		Arrears Capitalisation
2		Arrears Repayment Plan
3	<b>Short-term Forbearance Solutions</b>	Reduced Payment Above Interest Only
4		Interest Only
5		Reduced Payment Below Interest Only
6		Grace Period
7	<b>Long-term Forbearance Solutions</b>	Interest Rate Reduction
8		Loan Term Extension
9		Split Balance
10		Partial Debt forgiveness/ Write-down
11		Operational Restructuring
12		Debt to Equity Swap
13	<b>Resolution and Closure Solutions</b>	Other Out-of-Court Settlements
14		Voluntary Surrender
15		Mortgage to Rent / Lease
16		Voluntary Sale of Property
17		Settlement of Loans
18		Loan Sale
19		Auction – Collateral Repossession
20		Auction – Collateral Liquidation
21		Closure via Bankruptcy Process
22	Full Debt Write-off	



# Code of Conduct on NPL management

- The Code of Conduct provides guidelines regarding the interaction of credit and other financial institutions with borrowers in arrears:
  - Introduces the concept of “**cooperative borrower**”.
  - Describes the steps of an **arrears resolution process**, respective **deadlines** and **information requirements**.
  - Encourages selection of **appropriate forbearance measures** for every borrower.
- Established by Decision 116/1/25.8.2014 of the BoG Credit and Insurance Committee in the context of Law 4224/2013:
  - Due to the political and economic uncertainty it remained largely idle up to October 2015.
  - With a new BoG Decision banks were requested to send the first written notifications by end-December 2015.
- Enhancement of the Code of Conduct is planned for end-March 2016:
  - Guidelines to deal with group of borrowers (e.g. SMEs)
  - Fast-track mechanisms (e.g. standardized assessment templates, restructuring contracts)
- Implementation to be monitored on a quarterly basis.



# Banks' NPL resolution toolkit study

- In September 2015 BoG appointed BlackRock Solutions to:
  - Provide a granular stratification of the NPE portfolio of the four significant banks.
  - Review the NPL segmentation per bank alongside the existing forbearance measures and closure solutions for mortgages, small and medium enterprises (SMEs) and small business and professionals (SBPs).
  - Assess the preparedness and capacity of banks to deal with each NPL segment in a rigorous manner.
- The report was delivered in November 2015 and key findings and recommendation have been communicated to banks
- The main findings involved:
  - The portfolio segmentation is not adequately linked with proposing tailored-made modification options
  - Predominance of short-term forbearance measures
  - Delays in handling denounced loans (i.e. loans where the contract has been terminated)
  - Limited use of closure actions



# NPE Operational Targets (1/2)

The Bank of Greece after consultation with the ECB Banking Supervision and the HFSF has designed a set of operational targets for NPE management:

## Action-oriented

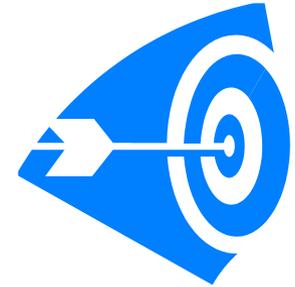
- Forbearance measures / total NPEs and performing forbore exposures
- NPEs above 720 dpd that have not yet been denounced / total NPEs
- Denounced loans for which legal action has been initiated / total denounced loans
- Common SME and Corporate NPEs for which a common restructuring solution has been implemented
- Going concern SMEs for which a viability assessment has been conducted in the latest 12 months
- Corporate NPEs for which a specialist has been engaged for the implementation of a company restructuring plan

## Results-oriented

- NPE ratio and level
- NPL ratio and level
- Quarterly recoveries from NPEs including collections, collateral liquidation and sales
- Ratio indicating success of long-term forbearance measures

# NPE Operational Targets (2/2)

- Commercial and cooperative banks will submit their targets by the end of the week (quarterly for 2016, annual for 2017-2019).
- BoG will review the submitted targets and discuss appropriateness
- Banks will report quarterly to the BoG as of June 2016 comparing their performance to the mutually agreed targets



## Asset class breakdown

- Total
- Mortgages
- Consumer loans
- Business loans
  - ✓ Small Business and Professionals (SBPs)
  - ✓ Small and Medium Enterprises (SMEs)
  - ✓ Corporate loans
  - ✓ Shipping loans



# Revised NPE strategy plans

- BoG has requested from all commercial and cooperative banks to submit revised NPE strategy plans by end-March 2016 taking into account:
  - NPE operational targets
  - Resolution toolkit study findings & recommendations (for the four significant banks)
  - Board and management priorities
  - Commitments in their approved restructuring plans and towards investors
- The NPE strategy plans should include detailed action plans with concrete tasks and timetable
- The BoG will be monitoring, in cooperation with the ECB for the significant banks, on a quarterly basis the implementation of the NPE strategy plan in combination with the progress towards achieving the NPE operational targets.

# Creating a secondary market for NPL servicing and sales



BANK OF GREECE  
EUROSYSTEM

- Law 4354/2015 provides the framework for non-bank servicers and the sale of NPLs:
  - Servicing by licensed non-bank servicers is allowed for all NPLs
  - Loan sales to licensed entities is allowed only for large corporate loans and non-primary residence mortgages
- Anticipated benefits include :
  - Know-how and IT systems of specialized NPL servicers
  - Unlock human resources and funds in banks
  - Attract international investors
- The BoG issued the Executive Committee Act 82/2016 (under publication) regarding the licensing and regulatory regime on non-bank servicers and of companies acquiring NPLs
- These companies will be supervised closely and will have to abide by the Code of Conduct on NPL management.

# BoG has been also supporting the implementation of the national NPL strategy

- BoG has supported energetically the implementation of the national NPL strategy, within its competence, whenever requested by the Government:
  - With **ECA 54/2015** BoG prescribed the methodology for determining the maximum repayment capacity of borrowers and the enforced sale value of a residential property in the context of the liquidation test envisaged by Law 4336/2015 regarding the **protection of primary residence**.
  - BoG is in the process of establishing a **Project Coordination Office** along with the hiring of an external consultant to support the work of the Special Secretary for NPLs in line with a KYSOIP decision.
  - BoG participates in the design of a **coordination mechanism** for large public and private arrears.

# Government initiatives: Improvement of the legal and administrative framework

- Amendment of the Code of Civil Procedure (Law 4335/2015)
  - Acceleration of procedures in the Court of First Instance
  - Acceleration of enforcement procedures
  - 65% of the proceeds of auctions earmarked for secured creditors
- Amendment of Bankruptcy Law (Law 4336/2015)
  - Simplification of the procedure to restructure and liquidate enterprises
- Amendment of Law 3869/2010 regarding household insolvency (Law 4336/2015 & Law 4346/2015)
  - Mandatory submission of necessary documentation to the Secretary of the Court
  - Criteria for the protection of primary residence (e.g. cooperative borrower, income and residential property value thresholds)
  - State subsidy for three years for vulnerable borrowers
- Revision of Law N. 4307/2014 on out-of-court settlement under way
  - Tax incentives, simplification of procedures etc.





# NPE-related initiatives of the Hellenic Financial Stability Fund (HFSF)

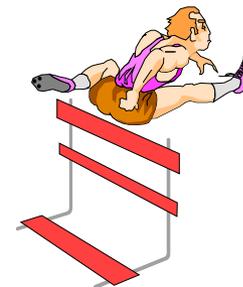
- Report on identifying non-regulatory constraints and impediments to the development of a dynamic NPL market
  - Administrative
  - Legal
  - Economic
- Monitoring of the NPE evolution and of the actions of significant banks in the context of the Relationship Framework Agreements
  - Review of prudential returns (ECA 42/2014)
  - Monthly meetings with banks
  - Monitoring of Key Performance Indicators in the context of NPE operational targets
- Assignment of a study regarding the treatment of common borrowers with the support of an external consultant



TAMEIO  
ΧΡΗΜΑΤΟΠΙΣΤΩΤΙΚΗΣ  
ΣΤΑΘΕΡΟΤΗΤΑΣ  
HELLENIC FINANCIAL STABILITY FUND

# The BoG sets the following priorities regarding efficient NPE management by banks:

- **Implementation of well-designed initiatives** with the objective of materially reducing the stock of NPEs within the next two/three years.
  - Ambitious targets coupled with decisive implementation.
  - NPE strategy accompanied with action plans with specific tasks and timetable.
- **Shift to long-term solutions.** The current approach of offering predominantly short-term forbearance measures only procrastinates the ultimate resolution of the problem, locks-in valuable resources and jeopardizes the robustness of banks' earnings and capital base.
- **Coordinated handling of common borrowers.** The cooperation among banks in the case of common borrowers is pivotal in agreeing a viable restructuring solution in a timely fashion.
- **Turnaround of viable firms,** with appropriate corporate restructuring, organizational and governance changes.
- **Enhanced internal control procedures,** to ensure transparency and a level playing field in the treatment of borrowers.



# Efficient NPE management: a cornerstone for financial stability and sustainable economic growth

## Banks

- **Underpin profitability** through interest and fee income, recoveries from settlements, legal actions and collateral liquidation.
- **Improve asset quality** thereby reducing credit risk cost.
- **Improve liquidity** through the gradual repayment of modified loans.
- **Restore depositor and investor confidence** in the viability of the business model of Greek banks.

## Borrowers

- **Restore debt sustainability** and improve repayment schedule.
- **Reduce lending spreads** by partial pass-through of reduced funding and credit risk cost
- **Regain access to banking services.**

## Real economy

- **Unlock funding** for financing viable businesses and the transition to a new export-oriented growth model
- **Improve the business climate**
- **Ensure social justice** by addressing the issue of strategic defaulters and uncooperative borrowers

