



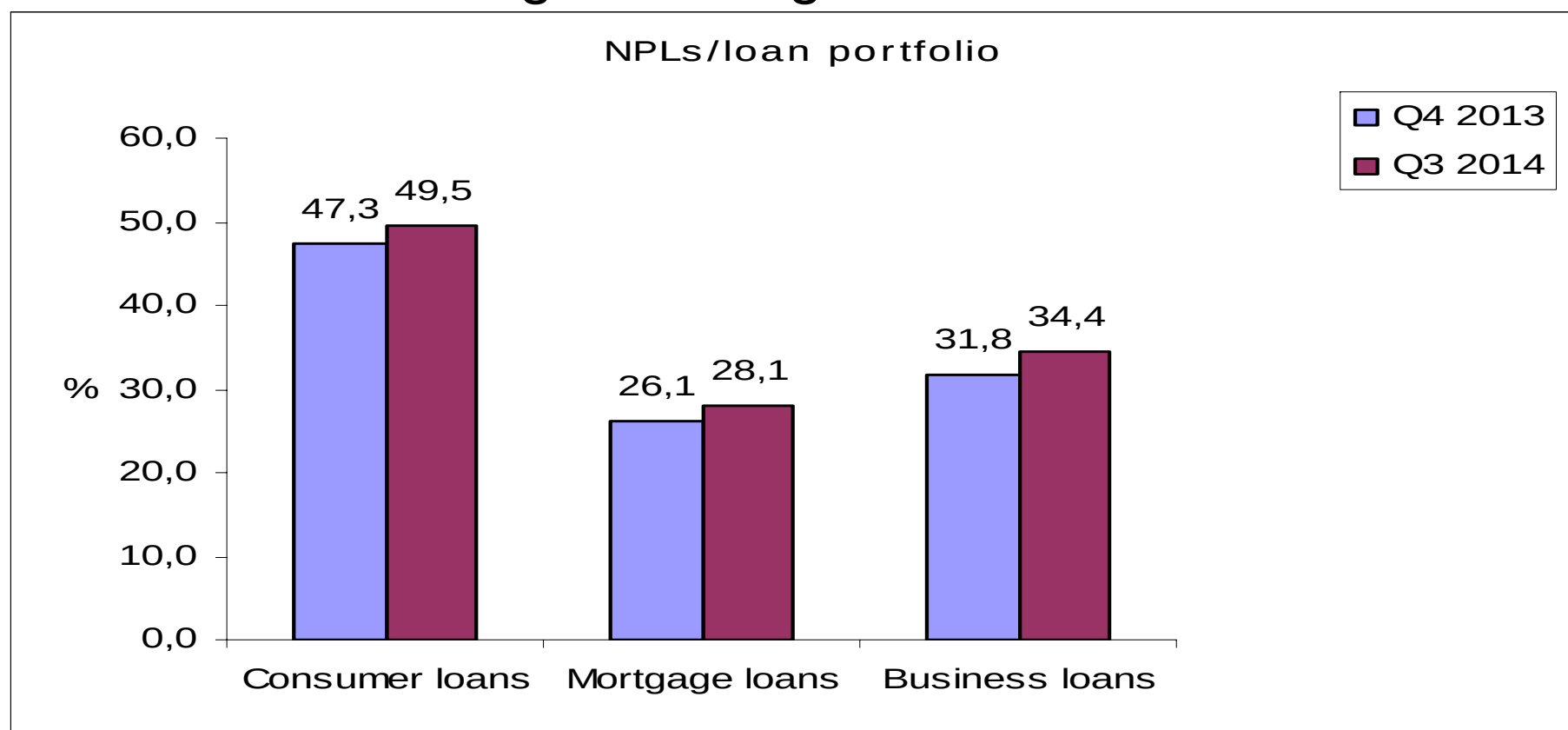
International Conference on
“Commercial property market indices and
Strategic actions for distressed property assets in Greece”
Athens, 13 March 2015

Existing legal framework for distressed assets in Greece

Aggeliki ZERVA, Banking Supervision Department



NPLs in Greece: High and rising levels



Source: Bank of Greece



➤ **A set of regulatory initiatives that could contribute to resolving the problem:**

- strengthening institutional capacity of the judicial system,
- improving insolvency legislation,
- better coordination of out-of-court restructuring,
- developing debt counseling services and information campaigns,
- tax incentives for write-offs,
- **developing an efficient market for distressed assets,**
- establishing reliable data platforms,
- **transparency and modernization of real estate market,**
- enhancing supervision,
- fostering cooperation among policymakers and other stakeholders.

➤ **First policy reaction => Law 4224/2013: Government Council on Private Debt Management**



GDP and unemployment: critical factors for the augmentation of NPLs
Factors hampering the resolution of NPLs:

Supply factors

- Limited incentives to sell and write off
- Suspension of judicial measures

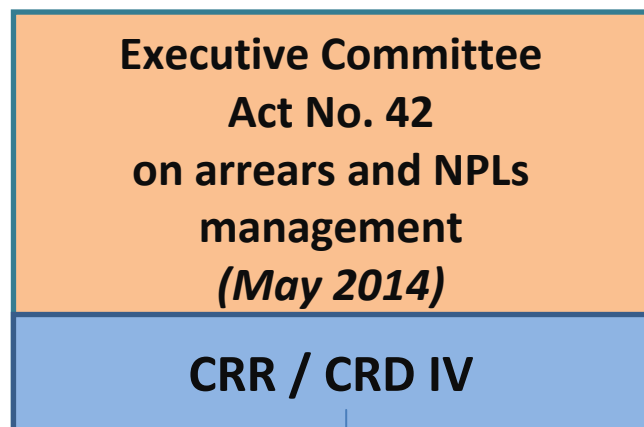
Demand factors

- Lengthy and inefficient judicial process.
- Limited options for restructuring.
- Small investor base.

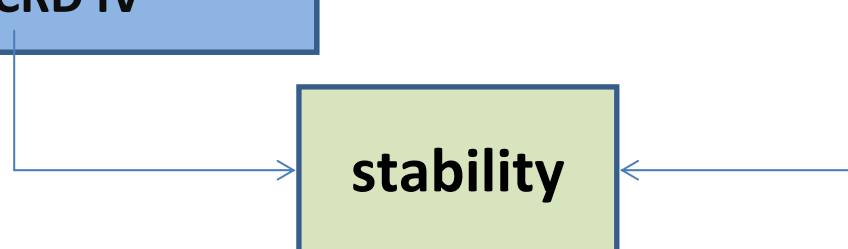
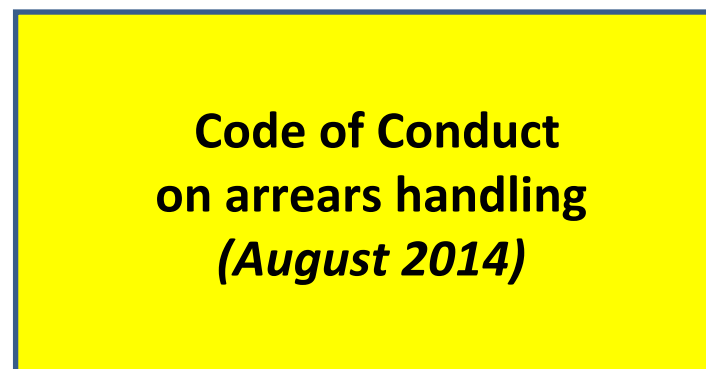


The role of the Bank of Greece (1)

the supervisory perspective
(BoG's Statute, art. 55A + SSM Reg.)



transparent + effective negotiation
(L.4224/2013)





The role of Bank of Greece (2)

CRR / CRD IV: the basis

A set of EU law provisions also applicable to Greek banks influence the way the institutions deal with troubled assets:

- increased capital requirements for NPLs
- reduced capital requirements for exposures secured by immovable property provided that specific valuation principles are followed
- lower risk weights for covered bonds
- provisions for securitization
- increased capital requirements for qualifying holdings outside the financial sector
- leverage ratio
- EBA ITS on Supervisory reporting on forbearance and non-performing exposures
- restructuring plans



The role of Bank of Greece (3a)

Executive Committee Act No. 42/2014: enhanced supervision at national level.

➤ Providing for :

- Adoption of the EBA harmonized definitions for NPEs and Forbearance
- Independent function for NPEs monitoring
- KPIs to evaluate efficiency
- **Guidelines for portfolio segmentation.**
- Guidelines for debtor's viability assessment and sustainable restructuring solutions.
- Comprehensive reporting to the board and the supervisor

➤ Aiming at:

- Better valuation of credit risk (debtor + **collateral**) => adequate provisioning
- Monitoring the efficiency of the concluded restructuring solutions
- **More options for sales and securitization**



The role of Bank of Greece (3b)

CRR + Executive Committee Act No. 42/2014



Potential economic effect

- repairing credit institutions' balance sheets
- decreasing the cost of funding
- **reallocation of resources to more credible and productive companies**
- revitalizing real estate market.



The role of Bank of Greece (4a)

Code of Conduct on arrears handling

Predefined steps within specific timeframes for both lender and borrower:

- written communication
- exchange of information
- individual debtor's assessment
- documented proposal of sustainable solution
- justification against co-operating borrower for any failure to conclude a sustainable solution
- right of appeal.



The role of Bank of Greece (4b)

Code of Conduct on arrears handling

➤ Covering:

- Both natural and legal persons.

➤ Aiming at:

- One more (and probably the **last**) **chance** for sustainable restructuring before foreclosure.
- Motivating more **innovative restructuring** solutions.
- Establishing **reliable procedures** for property valuation.
- Identifying (non) **cooperating** and (non) **viable** borrowers.



Neither Executive Committee Act No 42 nor the Code of Conduct may impose:

- solutions for common creditors
- write offs
- ban on foreclosures

however ...

specific laws have been set to address these issues :

- L. 4307/2014 (known as the *“law for the red loans”*)
- L. 3869/2010 (known as *“Katselis” Law*)
- L. 4224/2013 (known as *“Moratorium”*)



L. 4307/2014 Business debt settlements (1)

- First pillar: ***Tax incentives for settlements/write-offs for NPLs***

- Eligible debtors : **professionals** and **small enterprises** (turnover < € 2,5 mn).
- Temporary extraordinary measure.

- Second pillar: ***Settlement agreement with common creditors***

(Out-of-court restructuring, based on COM Recommendation of 12.3.2014)

- Eligible debtors: viable firms.
- **Binding effects for all creditors** including minority.
 - Tax incentives.
 - Temporary extraordinary measure.

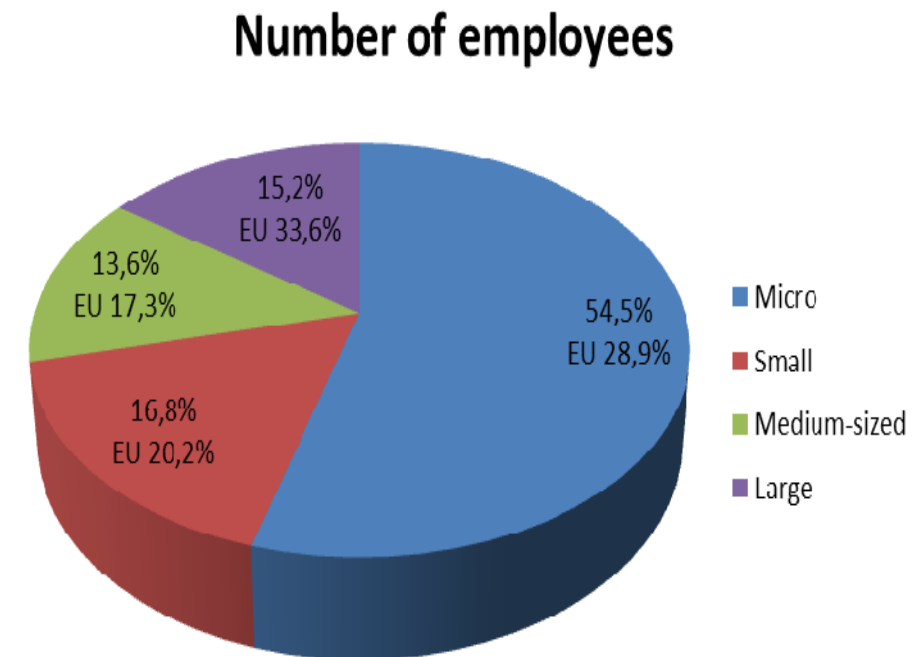
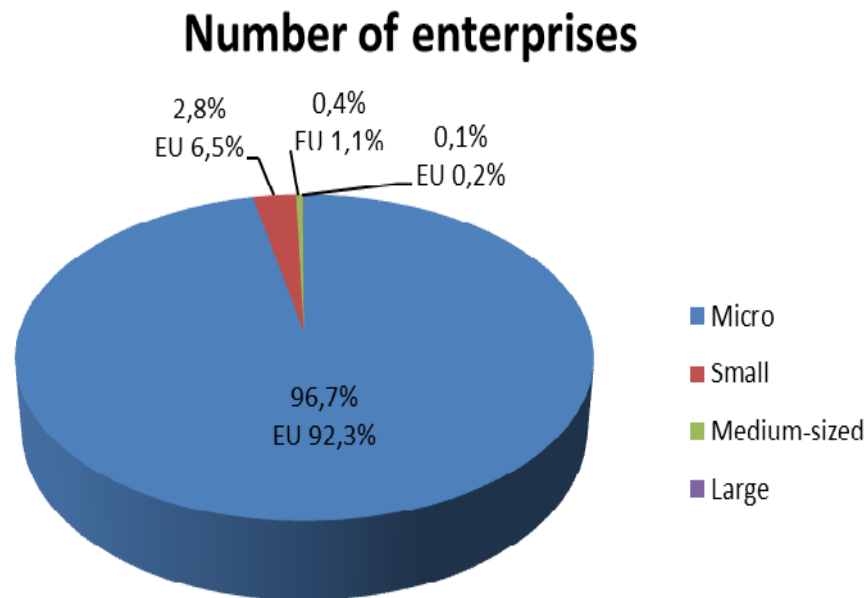
- Third Pillar: ***Special administration procedure***

- Simplification and acceleration of liquidation procedures for non-viable. companies **with binding effects for all creditors** including minority.



L. 4307/2014 Business debt settlements (2)

The pool of Micro enterprises in Greece





L. 3869/2010 : a hybrid personal insolvency law (1)

➤ Covering:

- Natural persons (not falling under Law 4307/2014) in permanent difficulties acting in good faith.
- Debts to **private** entities.

➤ Level of protection

- Suspension of all measures and procedural enforcement against the debtor from the date of petition until the final judicial judgment.
- Main **residence may be excluded** from liquidation if specific conditions are met.
- Possible **discharge** of debts (once).

➤ Procedure in three phases

- Discretionary mediation procedure (attempt for out of court settlement).
- Attempt for in-court compromise (>50% of creditors agreement required).
- Judicial settlement.**



L. 3869/2010 (2) large backlog of cases

	Total petitions under Law 3869/2010	...of which petitions to the Magistrate court of Athens	Decisions of the Magistrate court of Athens	...of which accepted
2010- 2014	150.693	28.686	3.900	1.966

Source: Magistrate court of Athens

	Date of petition	Date for judicial hearing
Magistrate court Rethymnon, Crete	30/12/2014	09/04/2030

Source: TEIRESIAS



L. 4224/2013 (“moratorium”: *expired 31.12.2014. To be extended?*)

➤ **Persons covered :**

Natural persons and professionals if specific criteria are met:

- ✓ Annual family disposable income < € 35.000
- ✓ Total assets < € 270.000
- ✓ Liquid assets < € 15.000
- ✓ Private debts > € 200.000

➤ **Level of protection**

Main residence < € 200.000 objective value

➤ **Conditionality**

- ✓ Submission of financial data and evidence for eligibility.
- ✓ Minimum monthly installment.
- ✓ Not allowed to skip payment of 3 installments.

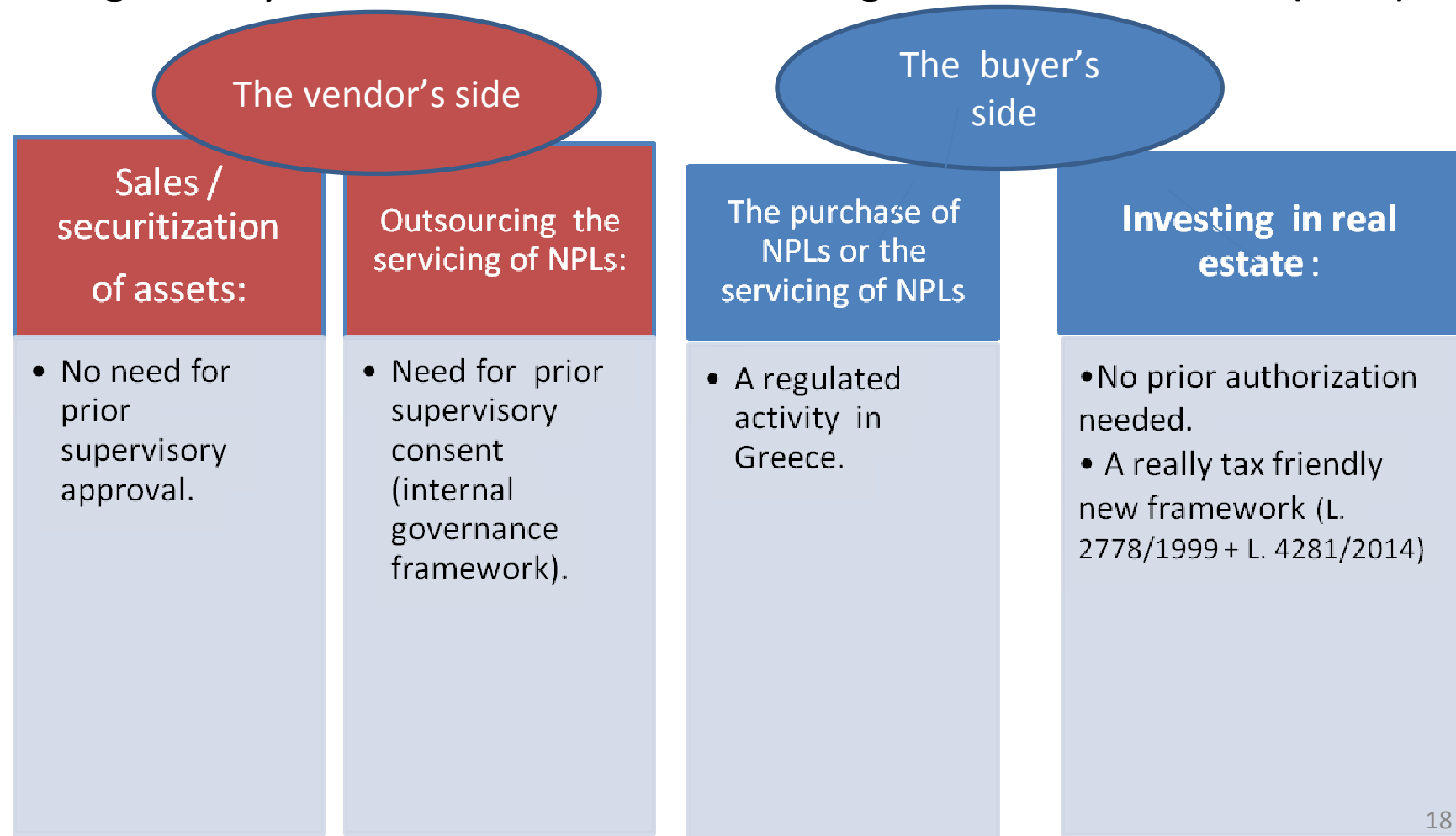


How the Code could interact with the other relevant laws?

- As a mandatory first stage of negotiation
- Giving evidence to be assessed by a court on:
 - ✓ the situation and the prospects of the debtor
 - ✓ the degree of debtors' indebtedness
 - ✓ the debtors' willingness to cooperate
- Facilitating common creditors' solutions where established by law
- Enhancing institutions' discipline
- Fostering cooperation culture



Regulatory framework for transferring Distressed Assets (D.A.)





Who can buy NPLs?

after prior approval of the BoG

Factoring companies regulated and supervised by the BoG
(L. 1905/1990, BoG/GA 2622/2009)

Consumer Credit Companies regulated and supervised by
the BoG
(L. 4261/2014, BoG/GA 2622/2009)

Financial or credit Institutions without EU passport
(L. 4261/2014)

After prior notification to the SSM

Financial or credit institutions with EU passport
supervised by the home competent authority
(L. 4261/2014)

No supervision

SPVs
L. 3156/2003

Other companies that
may be established by
virtue of a law



Potential next steps

- Regulatory framework for **non -bank financial institutions**:
 - ✓ the proper level of the **regulation/supervision** (focusing rather on macro than micro risks),
 - ✓ the necessary level of **consumer protection** (information/behavior practices, fair treatment/confidentiality).
- A private or a public Asset Management Company (AMC)?
- A central or several Specialized Vehicles (*securitization/servicing/restructuring of particular portfolios*)?



A regulatory framework for AMC

Key issues

- Objectives/Potential interaction with Banking Recovery and Resolution Directive
- Status of ownership of the AMC=> risk – sharing
- Governance /strategy
- Size
- Eligibility of assets to be transferred
- Valuation of eligible assets
- Conditionality (state aid ruling)
- Duration (well defined exit strategies)
- Servicing/ financing
- Competition
- Eligibility of AMCs' bonds as collateral for monetary policy



Is it enough?

- **Prioritization and speeding up other complementary actions.**
- **Fostering coordination among authorities and institutions involved.**



Coming soon.....

- EBA GLs: harmonized practices in handling arrears
- New IFRS 9: achieving more prudent and timely provisioning by expected loss model
- Shadow banking: a series of proposals
- Mortgage Credit Directive: valuation of residential immovable property
- EU green paper for a single capital union: thoughts for harmonizing insolvency laws
- Securitization/SMEs: seeking alternative channels for funding while ensuring sound risk assessment and diminishing conflicts of different players



Thank you for your attention!