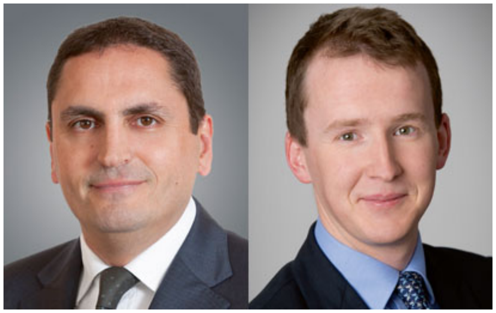
LEGAL EASE: NPL innovation - examples from Italy (/july-august-2015/16129-legal-ease-npl-innovation-examples-from-italy)



2015 is set to be another bumper year for non-performing loan (NPL) transactions in Europe – even larger than 2014, which saw more than €90 billion of deals completed, itself a 40% year-on-year increase. Prompted by a desire to divest non-core assets and galvanised by the results of the European Central Bank's Asset Quality Review, retail and commercial real estate portfolios in Ireland, the UK and Spain dominated last year's market.

While it is too early to declare what this year will be remembered for, what is already notable is a diversification in deal structures, with four different approaches in Italy alone. This article will briefly examine a selection of Italian deals, highlighting a range of options that potential acquirers and those making disposals across the entire European market should consider.

SECURITISATION

Securitisation was the favoured structure for HIG. Capital's investment in an Italian NPL portfolio originated by Group Cassa di Risparmio di Cesena, announced in February 2015, and Fortress's investment in €380 million of Banca Monte dei Paschi di Siena (BMPS) NPLs. Potential tax advantages, insolvency remoteness and the ability to appoint third parties to manage the portfolio (whose fees have limited recourse to the securitised assets) no doubt appealed to the parties to these transactions.

OUTSOURCING

Whether due to tax or regulatory structuring difficulties, or a simple desire to maximise value without any balance sheet impact, appointing a third party to manage an NPL portfolio has been the preferred route for BMPS and Credito Valtellinese (Creval) this year. In April, Creval appointed Cerved Credit Management to manage a portfolio of NPLs, whilst BMPS has appointed a variety of operators including Cerved, FBS and CAF in relation to €3 billion of NPLs. This approach may also be aimed at ironing out impairments in a portfolio to allow a more straightforward NPL portfolio sale in the future.

WHOLE BUSINESS ACQUISITION

Fortress's acquisition of UniCredit Credit Management Bank (UCCMB) in February gave it an NPL portfolio of €2.4 billion, as well as the means to service it in the form of UCCMB's NPL servicing business and servicing contracts for other NPLs held by UniCredit. This approach also addresses a key concern for potential investors – a lack of access to servicing companies – and provides the acquirer with experienced personnel who have knowledge of the relevant portfolio.

VANILLA SALE

An increase in the range of NPL deal structures may be a sign that the most straightforward disposals have already taken place. For this reason, we anticipate that the remainder of this year will see higher volumes along with increasingly innovative and complex structures. This might include joint venture structures similar to the RBS-Blackrock Project Isobel JV of 2011, where the originating bank retains a share in future profits while also moving the NPLs off-balance sheet. Heightened activity in jurisdictions such as Italy is also likely to fill the annals.

Adam Plainer is a partner and Chris Evans is an associate at Weil, Gotshal & Manges