



# **Dealing with impaired assets – lessons from the euro zone periphery – the Spanish experience**

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# **Dealing with banks' legacy assets in Spain - a two-pronged approach**

**I. Segregation of impaired real estate-developers and construction assets from bank balance sheets - setting up of an asset management company (AMC)**

**II. Supervisory assessment of bank strategies for managing impaired assets**



## **Setting up of the asset management company – SAREB (I)**

- ✓ ***No immediate impact on public finances*** - SAREB remained outside the general government sector due to the majority private ownership (55%)
- ✓ ***Avoid the complexity of managing granular portfolios*** - thresholds for the transferred foreclosed real-estate assets and real-estate developers and construction (RED) loans
- ✓ ***Conservative transfer price ensured by haircuts applied on transferred assets*** - 52.7% average haircut on gross book value of transferred foreclosed assets and RED loans



## **Setting up of the asset management company – SAREB (II)**

- ✓ ***Need to ensure a solid funding base for the AMC - "SAREB" bonds backed by state guarantee; subordinated debt convertible into capital + common equity (8% of total assets)***
- ✓ ***Until fully independent in terms of operational capacity, the AMC relies on transferring banks - service level agreements with transferring banks for the management of transferred assets***
- ✓ ***Successful sale of assets depends, inter alia, on the availability of funding for potential buyers - vendor financing agreements with banks***



## **Supervisory assessment of bank strategies for managing impaired assets (I)**

- ✓ **End-December 2012 - Bank of Spain required the largest banking groups to review, and if necessary, prepare and implement loan work-out strategies**
- ✓ **First quarter of 2013 - Internal audit departments of banks reviewed the strategies and processes for arrears management to identify deficiencies**
- ✓ **End-March 2013 - Measures to address deficiencies and areas for improvement included in action plans submitted to Bank of Spain**
- ✓ **Measures proposed by banks challenged by Bank of Spain based on knowledge of individual banks**



## **Supervisory assessment of bank strategies for managing impaired assets (II)**

- ✓ **Based on the banks' action plans, Bank of Spain developed a scoring system aimed at identifying the worst performing banks in terms of loan work-out strategies**
- ✓ **Worst performing banks had, *inter alia*, underdeveloped IT systems for managing impaired assets**
- ✓ **End-September 2013 - Deadline for the implementation of improvement measures by banks**
- ✓ **First quarter of 2014 - Targeted on-site inspections in banks with the weakest arrears management systems**



**Thank you for your attention !**