**PRESS RELEASE**

# Credit Village NPL Observatory - 3rd quarter 2017: 137 transfer agreements signed in 9 months, worth €63 billion. And what about credit recovery?

**The NPL ball is on the verge of moving into the credit recovery court, raising the question: are traditional servicers up to this challenge? Over 1000 industry experts will attempt to determine the servicer of the future at** Credit Village Day 2017 on 22 November in Milan

*Rome, 17 October 2017* **- NPL madness.** This year is undoubtedly going to be remembered for newspapers and TV news programmes constantly reporting on non-performing loans, the mass of deteriorated credits circulating in Italy and the announcements, at seemingly every turn, of major sales or purchases of huge pools of loans. **2017 has seen record values for gross book value (GBV) sold and total number of transactions.**

Credit Village's National NPL Observatory**, which has been surveying all NPL transactions since January 2016, has identified 135 completed transactions in the first 3 quarters of the year, worth an estimated €34 billion.** This is more than double 2016, which saw 71 transactions with a GBV of 12.5 billion in the same period. And the year is not yet over! Adding in the binding agreements signed by Quaestio Capital, on behalf of Fondo Atlante 2, to purchase roughly 2.7 billion in NPLs from Cassa di Risparmio di Cesena, Rimini e San Miniato, and the MPS maxi transaction worth 26 billion, **GBV will total €63 billion.** This is in line with the recent International Monetary Fund estimate that, by the end of the year, Italian banks would sell off 65 billion in impaired loans.

But, these numbers really need to be looked at a little closer to understand the real situation. **Analysis conducted by Credit Village's Observatory shows a few interesting trends. A clear macro-trend for 2017 has been the focus on "big transactions"** as nearly 80% of the total NPLs sold in the first 9 months were sold in only a few transactions, involving very few investors. This clearly leads to a question. **Do these maxi sales really resolve the problem, or do they simply change it or push it down the road?**

**Credit Village's Observatory found another interesting trend related to asset class and the GBV of the individual positions.** It poses a question about the servicers who will try to recover the credits. **Most of the NPLs - nearly 78% of the €186 billion recorded by the Bank of Italy at 31 March - are for more than €250,000,** with only 6.8% for less than €75,000. Plus, these positions tend to be exceptionally complex (Secured, Corporate & SME), meaning successful management requires real professionalism and a transversal mix of expertise that is not easy to get hold of or "duplicate". **This**

**amounts to a major challenge for Italian servicing, which tends to specialise, above all, in the unsecured segments, where the amounts for each individual position are significantly lower and tend to be retail, consumer credit and utilities.** Moreover, most of the sales, over 100 out of 135, were securitisations, leading to a further unknown, as being an SPV servicer or subservicer requires specific structures and organisations not always found in traditional servicers. Will Italian servicers be able to reorganise their internal processes, generating new know-how to manage the enormous pools of loans being sold off by the banking industry, after lying around in the system for years?

Finally, there is a series **of questions about the investors.** 2017 has been a year of racing to purchase pools of NPLs in the Italian market. **This has inevitably hit purchasing prices that, despite what many bankers are saying, are clearly inflated.** If there are at least 30 hardened investors vying for the single goal of buying a pool of loans, the **price will inevitably rise. Credit Village's Observatory has seen unsecured loan portfolios sold at prices 3 times higher than the value of the same portfolios 3 years earlier.** Since these investors have used such enormous resources to get the loan pools, will they have funds to invest in collection? Plus, will they be able to follow the business plans drawn up during due diligence, or will sales on the secondary market be necessary? Indeed, the re-trade market has seen an evident deflation in expectations, having once been potentially viewed as a genuine alternative market, ready to meet the needs of those players who had focused their core business precisely on such loans. But, in the opening 9 months of 2017, only 20 transactions worth a total of €3 billion have been recorded. So, will buyers be able to achieve the desired yields, turning what is currently the biggest problem in the banking system (not only the Italian banking system) into a source of profit? The role of servicing will play an increasingly important part in achieving success. But what will the servicer of the future be like?

This is tough to predict right now, but it is a crucial time and **Credit Village will try to find the answer from leading industry experts at the 11th [Credit Village Day 2017]**, to be held in Milan on 22 November. The theme for this **Credit Village Day is "Metamorphosis", a concept that entails the idea it is possible to perceive,** through exchange with servicers, clients, originators, investors, consumer associations and journalists, the short-term trends in the credit sector.

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