

Non-Performing Loan Sale Transactions

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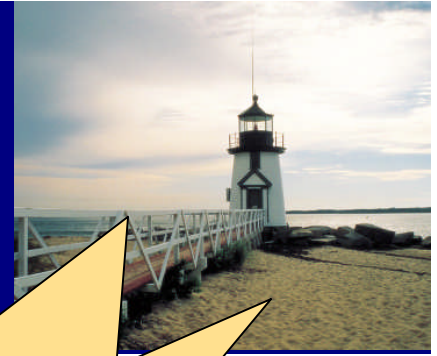
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Agenda



1. Transaction rationale
2. Sale process
3. Transaction types

Transaction rationale



**One of the 3
principal
resolution
methods**

**Opportunity
for fast exit**

**One of the
earners for the
world's
investment banks**

Why sell NPLs ?

- the sellers view



- Inability to manage problem loans in-house
- Tap workout expertise
- Free-up management time – create a “future focus”
- Improve liquidity position of the institution
- Improved capital & debt market perception of the seller
- Improved ratings (S&P, Moody’s, Fitch)
- Potentially improve capital adequacy position

Why sell NPL's?

- regulatory issues



Buyer desires

- Ease of transfer of NPL's
- Unrestricted FDI
- Robust insolvency and foreclosure regime

Seller desires

- Tax incentives

Why sell NPLs ?

- the industry/economic view



- Faster clean up of NPL's enables lending to recommence, creating loan growth
- Allocation of funds to more efficient entities
- Better managed NPLs mean better recoveries overall
- Enhanced foreign and domestic investor confidence
- NPL sales bring additional capital into the country

Who are the buyers ?



Buyers

- Investment Banks (ML, Goldman, Bank of America etc)
- Distressed debt funds (Cerberus, Lone Star, Newbridge etc)
- Financial houses (GMAC, GE, etc)
- State AMC's (eg. Thai AMC, Czech Consolidation Agency, etc)

Investment banks

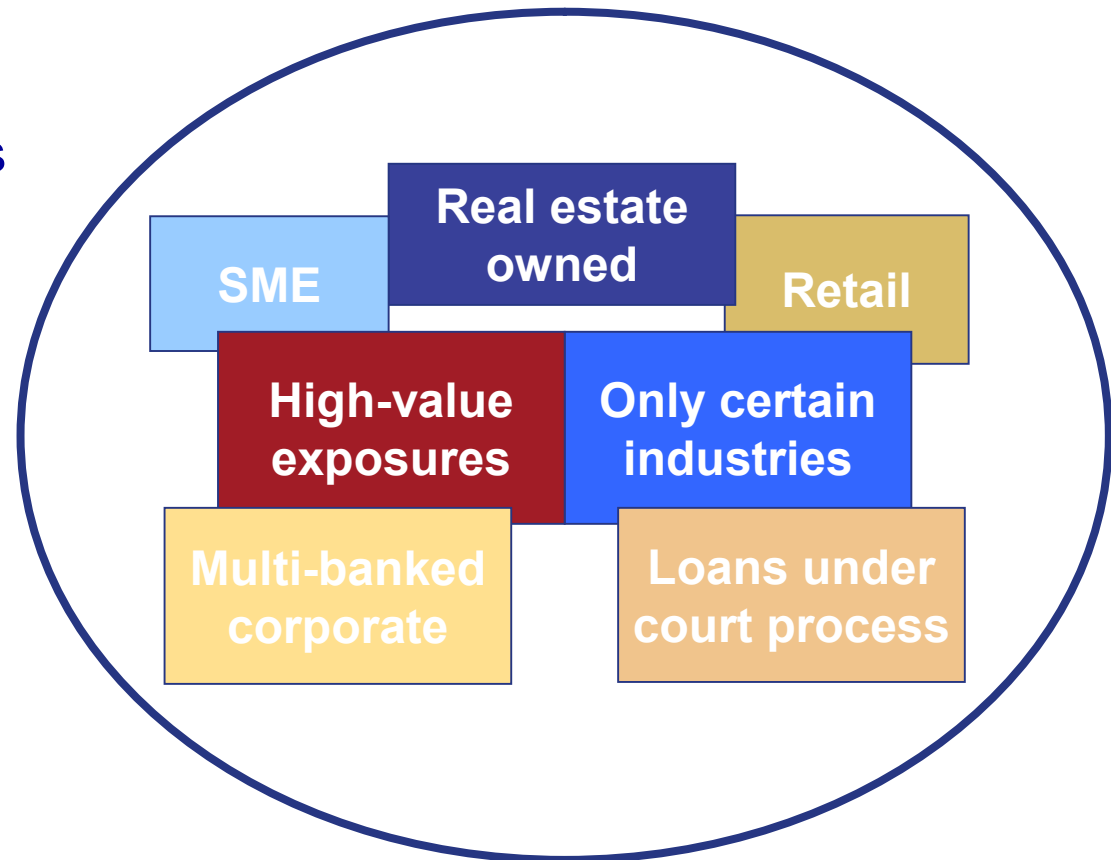
**Specialist NPL
funds**

**Other financial
entities**

What loan assets are typically sold?



- Wide variety of loan types may be subject to transactions
- Some buyers may have particular preferences due to their primary expertise



The sale process



Strategy development

Preparation process

Sales process

- set up overall transaction goals and options available
- prepare transaction to maximise sale value potential
- manage the process to realise the sales objective

Disposal strategy



Strategy development needs address:

- Overall strategy of the Bank regarding its NPL portfolio and identify option available to the Bank which align with its objectives
- Various sale types available to match to the Bank's portfolio
- Portfolio segmentation into appropriate sub-portfolio
- The assessment of the investor market

When establishing a disposal strategy, the issues and concerns of different buyer groups need to be considered e.g.:

- Fast resolution of the portfolio at a profit (1-3y)
- Supplement any existing portfolio (economies of scale)

Sale preparation



Main areas to address in the sale preparations process:

- Portfolio review, classification and stratification
- Pooling & packaging sub-portfolios to maximise value
- Form of investor review files
- Define deal structure
- Prepare Confidential Information Memorandum (CIM)
- 3rd party service provider Co-ordination/management

Sale Preparation Deal Structuring Techniques



Overarching Considerations

- To create an environment that maximises value (macro and individual sale environment)
- To attract investors who are suited to the NPL portfolio
- To provide sufficient and organised information to investors so that the pricing will go up
- To create appropriate communication channels (with both buyers and the seller)

Sale Preparation Deal Structuring Techniques



Why Structure a Sale?

- Allows a closer alignment of seller & buyer needs
- Also provides opportunity to overcome:
 - Information deficiencies
 - Weaknesses in the legal/regulatory environment
 - Softness of the market
 - Buyer/Seller price variance

Sale Preparation Deal Structuring Techniques



Structuring Options

- Options are as varied as the needs of the parties involved:
 - Profit sharing (retention of upside elements by the seller)
 - JV AMC/SPV
 - Non-cash considerations
 - Deferred payment schemes
 - Asset servicing arrangements
 - Acquisition of economic, but not legal rights

Sale Preparation Deal Structuring Techniques



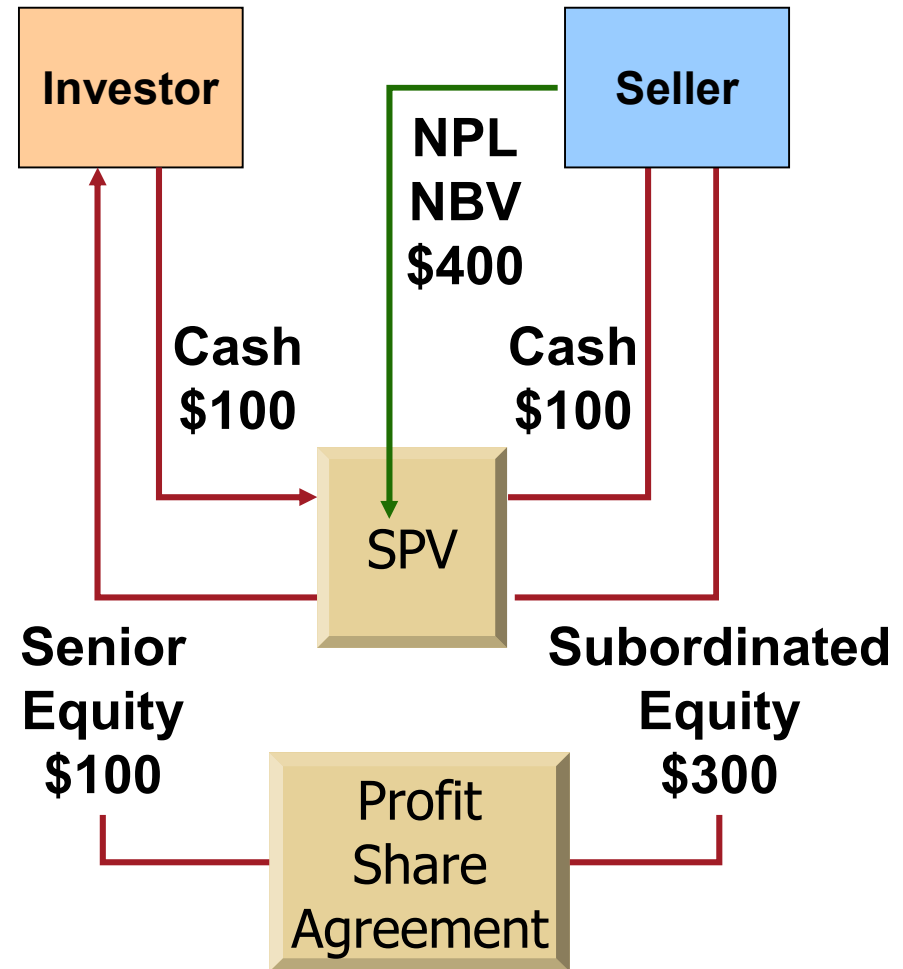
Profit Sharing

- Relatively simple structure involving:
 - Establishment of a benchmark price for the NPL portfolio
 - Benchmark price often the cash paid up-front
 - Setting of initial return/recovery benchmarks to the investor
 - Agreement of split of profits above
 - Agreement typically reflected in a equity or debt structure
- Advantage: retention of upside potential for seller
- Issue: potential accounting treatment of sale

Sale Preparation Deal Structuring Techniques



- Profit Sharing
- Example
 - Benchmark price
 - \$100 (NBV \$400)
 - Benchmark investor return
 - Principal + 20% IRR
 - Profit Split
 - 60/40 above returns
 - Return to Seller = 60% of recoveries above:
 - Initial \$100 investment +
 - 20% IRR



Sale completion



Management of the entire portfolio sale process:

- Designing appropriate bidding/sales procedures
- Overseeing investor contact (investor invitation, qualification)
- Evaluation of investment proposals
- Negotiate detailed terms
- Coordinating legal/other advisers

NPL sale types



1. Private placement
2. Auction/bid process
3. Securitisation

Pros and cons



+ Private placement -	
<ul style="list-style-type: none">• speed of sale• information supplied specifically tailored to investor• confidentiality easier to maintain	<ul style="list-style-type: none">• no competition; price reduced• may not reach highest potential bidders• limited widening of general investor base

+ Auction/bid -	
<ul style="list-style-type: none">• reasonably quick process<ul style="list-style-type: none">• price maximised• wide base of professional investors reached<ul style="list-style-type: none">• one off process	<ul style="list-style-type: none">• information needs wide but remains controllable• will not reach all potential investors• process requires more management

+ Securitisation -	
<ul style="list-style-type: none">• reach widest potential investor base<ul style="list-style-type: none">• debtor relationship retained• issues can be “topped up” with later portfolios	<ul style="list-style-type: none">• requires rating; extensive information requirements<ul style="list-style-type: none">• ongoing management required• higher initial costs

Legal/Regulatory Environment



Importance of the Environment

- Has a major influence on investor participation (particularly in light of the competition for capital)
- Can act as either an inducement or a block to seller action
- Determines what can and can't be done in terms of structures

Typical Legal Issues

- Confidentiality of the bank information
- Tax deductibility of the crystalized losses
- Debtor's consent

The Advantage of Advisors



- Understand perspectives of both buyer and seller
- Understand international NPL transactions benchmarks in terms of:
 - Logistics/information/communication expectations
 - Valuation
 - Legal documentation and precedence
- Ensure access to and participation of the international buyer market
- Have the skills not readily available to the seller in-house
- Act as the communication link between buyer and seller

Final Comments



- Integrate local practices with international standards/benchmarks
- Clearly define your objectives before embarking on a sale
- Information is the key to success
- Don't go it alone – experienced advisors will enhance value
- Who will gain the first sellers advantage ?

Contact



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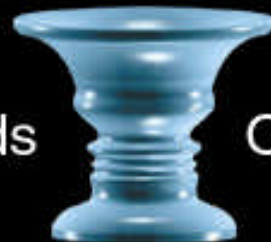
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