Contents

1 Work-Out: Holistic Active Management of NPL ........................................ 1
  1.1 Introduction ......................................................... 1
  1.2 An Overview of the Book .................................... 3

2 The Bad Bank and the Good Banking ........................................... 9
  2.1 What NPL Really Means ........................................ 9
  2.2 Perception, Deception ....................................... 10
  2.3 NPLs: A Booming Market .................................. 11
  2.4 NPLs: A Macro and Micro Perspective ............... 12
  2.5 NPLs: The Lake and the River ............................. 13
  2.6 Ways Back from Hell ...................................... 14
  2.7 The “Bad Bank” Approach ................................ 16
  2.8 Systemic Bad Banks: The NAMA and SAREB Cases ......... 17

3 The Work-Out Value Chain: Permutations and Clusters ................. 21
  3.1 The “Traditional” Credit Lifecycle .......................... 21
    3.1.1 Credit Origination ....................................... 22
    3.1.2 Credit Management ...................................... 23
    3.1.3 Credit Management, Collection and Recovery ......... 23
  3.2 A More Proactive Approach to the Credit Lifecycle ......... 24
    3.2.1 Credit Origination ....................................... 24
    3.2.2 Credit Management ...................................... 25
    3.2.3 Active Management of Sub Performing Loans ........ 26
    3.2.4 Active Management of Non Performing Loans ......... 27
  3.3 Segmentation of Non Performing Loans ....................... 28
  3.4 Permutations and Clustering of NPL Portfolios ............. 30
  3.5 Credit Work Out Strategies for NPL Clusters ............... 31
  3.6 Economics of the Recovery Strategies and “Make” Versus
    “Build” ............................................................. 33
  3.7 Cost Income Analysis for Independent Work Out Platforms ... 34
4 The Work-Out Unit: Captive–Deceptive ........................................ 39
  4.1 Alternative Set Ups: Captive Versus Non Captive ................. 40
  4.2 The Internal “Embedded” Set Up ...................................... 41
  4.3 The Internal “Separate Legal Entity” Set Up ....................... 42
  4.4 Captive “Deceptive” .................................................... 43
  4.5 The External “Outsourcing” Set Up .................................. 43
  4.6 Model Selection: Three Factors to Consider ....................... 44
  4.7 Bank Owned, Independent Credit Work Out Units ............... 47

5 Developing a Credit Work Out “Alpha Platform” ..................... 51
  5.1 Beta Trackers and Alpha Players: A Snapshot of the Asset
       Management World .................................................... 51
  5.2 Different Ways of Becoming an Alpha Player ...................... 53
      5.2.1 Talent Driven Alpha Playing .................................. 53
      5.2.2 Process Driven Alpha Playing ................................ 54
      5.2.3 Algorithms Driven Alpha Playing .......................... 54
      5.2.4 Scale Driven Alpha Playing .................................. 55
  5.3 The “Trade off”: Cost Optimization Versus Recovery
       Maximization ........................................................... 56
  5.4 Defining the Best Recovery Strategy ................................ 57
      5.4.1 An Equipment Leasing Work Out Case Study ............... 58
      5.4.2 Real Estate Backed NPL Case Study ......................... 60
  5.5 Defining the Best Position to Recover ............................. 62
  5.6 Industrializing the Internal Capabilities ........................... 63
  5.7 Ensuring the Effective Monitoring of Internal Structures ....... 64
  5.8 Ensuring the Effective Monitoring of External Structures ....... 66

6 Developing an Holistic and Active Credit Work Out Unit .......... 69
  6.1 Developing a WHAM Approach ....................................... 69
  6.2 Design and Creation of a Credit Workout Unit .................... 70
  6.3 Crash Program on the Most Urgent Situations .................... 75
  6.4 Design and Development of Accelerators .......................... 76
      6.4.1 Real Estate Agency ............................................. 77
      6.4.2 REOCO ............................................................ 81
      6.4.3 Active Real Estate Management (AREM) .................... 88

7 Managing Competitively NPL Portfolios and Third Party
       Servicers ................................................................... 89
  7.1 Managing Competitively NPL Portfolios ............................... 89
  7.2 An Approach to Credit Workout Excellence ....................... 90
  7.3 NPL Portfolios Database Assessment ................................ 92
  7.4 Portfolio Valuation and Recovery Strategy Implementation ...... 94
  7.5 The “as is” Value .................................................... 95
  7.6 The “To Be” Value .................................................. 101
  7.7 The Overall Assessment of the Strategy ............................ 102
  7.8 Defining the Best Set of Actions .................................... 106
8 The WHAM of a Troubled Corporate Loans Portfolio .......... 109
  8.1 Corporate Restructuring and Credit Work Out ................. 109
  8.2 Sub Performing Corporate Loans: The Ways Out ............... 111
  8.3 Corporate Restructuring: An Overview ....................... 114
     8.3.1 Company Crisis: Reasons and Indicators ............... 114
     8.3.2 Early Actions: Institutionalizing Cash Management .... 116
     8.3.3 Determining the Value of Options for Shareholders ... 118
     8.3.4 Assessing Restructuring Options ....................... 119
  8.4 The Importance of a Holistic Turnaround Approach ........... 121

9 The WHAM of a Real Estate Loans Portfolio ..................... 123
  9.1 Banking and the Real Estate Sector—The Interconnections .... 123
  9.2 How Many Real Estate Assets Does a Bank Have in Its Portfolio? .............................. 124
  9.3 An Optimal Management of Real Estate Assets ................. 126
  9.4 AREM—Active Real Estate Management ........................ 129
  9.5 Active Space Management ..................................... 133
  9.6 The Bank as an Integrated Real Estate Player ................. 134

10 The WHAM of a Troubled Leasing Equipment Portfolio .......... 137
  10.1 The Management of an NPL Leasing Portfolio ................. 137
  10.2 Leasing: It’s All About the Underlying ..................... 138
  10.3 Short Term Management Actions on Leasing NPL ............... 139
  10.4 A Medium-Long Term Program for Real Estate Leasing Contracts ............................ 141
  10.5 Value Creation in Leasing ................................. 143

11 Working It Out: From Value Recovery to Value Creation .......... 145
  11.1 The Evolution of the Credit Work Out Business ............... 145
  11.2 The Industrialization of Credit Recovery ...................... 146
  11.3 Innovations ............................................... 150
  11.4 Working It Out: Holistic and Active ......................... 151

Bibliography ................................................................. 153
Holistic Active Management of Non-Performing Loans
Scardovi, C.
2016, IX, 153 p., Hardcover
ISBN: 978-3-319-25362-6