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Improved flexibility?

Legal changes driving Greek NPL expansion

KKR Credit's Pillarstone unit recently bolstered its senior team in Greece. The move reflects rising interest in the Greek NPL market, following the second appraisal of the country's economic adjustment programme.

The Pillarstone hires follow a May 2016 agreement between KKR, Alpha Bank and Eurobank to expand the platform in Greece. The firm's entry into the Greek NPL market coincides with domestic developments that help explain the timing of its move.

The sector has witnessed "a noticeable rise since 2007, with the ratio of non-performing loans to total loans skyrocketing from 4.6% in that year to 34.7% in 4Q15", according to Alexandros Kyparissis, hedge fund analyst at Stone Mountain Capital. This is the second highest NPL ratio in the EU after Cyprus (45.6%).

Yet, despite the need for the offloading of such loans, the market has been beset by a number of major obstacles to investors. According to George Kofinakos, senior advisor and md for Greece at StormHarbour, divergence between the bid and the offer price and domestic political uncertainty have been the main hurdles for the lack of activity in the recent past.

He adds: "Demand and supply was never the problem. It was simply the case that the high valuations of the Greek banks were not wanted by hedge and private equity funds."

Drivers behind this divergence include delays in denounced loans (which comprise a fifth of the market), limited use of closure actions and short forbearance, as well as political uncertainty and an undeveloped legal framework for dealing with NPL sales.

A presentation to the Bank of Greece from early March 2016 further highlights pressure on creditor rights, as epitomised by the Katseli law, and impediments to NPL transfers. Evangelos Margaritis, senior associate at Drakopoulos Law Firm, points out that the "transfer of NPLs may expose the management or competent committee to liability for breach of fiduciary duty".

As to the Katseli law, he adds that it combines long standstills on debt repayments and court orders prescribing debt reduction. The problem, he says, is "further exacerbated due to the risk of auctions, which render any NPL purchases a difficult proposition."

The situation, however, is beginning to change. The last six weeks or so have seen increasing interest in the market, following the second appraisal of the Greek economic adjustment programme. Investor sentiment also appears to be improving, thanks to recapitalisations of four systemic banks.

According to Kyparissis, investors in the sector are mainly private equity funds and their private debt departments looking for small business exposures (66.5% non-performing exposure per asset class), followed by SMEs (58.2%), shipping loans (26.7%), mortgages (39.8%) and consumer loans (55.4%).

The most important positive development, according to Kofinakos, was a Bank of Greece legal framework that improved the flexibility for restructuring. The law allows for "speedier internal and external servicing with third parties as part of their portfolio". For the external servicing, he expects 75% to be joint ventures, with the remainder being sales.

The legislation - Law 4354/2015, as well as amendments 4393/2016 and 4389/2016 - are supposed to deal with these problems through the establishment and operation of specialised companies that will manage debt receivables from NPLs and any loans or credits granted by credit or financial institutions, with the exception of loans and credits granted by the deposit and loan fund. Loans guaranteed by the Hellenic republic were explicitly exempted from the scope of Law 4354/2015.

Nevertheless, problems remain, since although the law does enable restructuring, it does so only under ad hoc permission by the Bank of Greece and excludes DIP financing. Additionally, as Margaritis points out, NPL transfers and the Katseli Law are still a major hindrance to the market's development.

Pillarstone recently appointed former Goldman Sachs banker Elias Sakellis as partner and ex-Advent partner Georg Stratenberg as non-executive director. The firm states that Sakellis - whose background is in shipping, leveraged finance and restructuring - will further "grow and manage" its Greek platform. With a background in private equity, Stratenberg will be responsible for the governance and oversight of its activities in the country.

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