

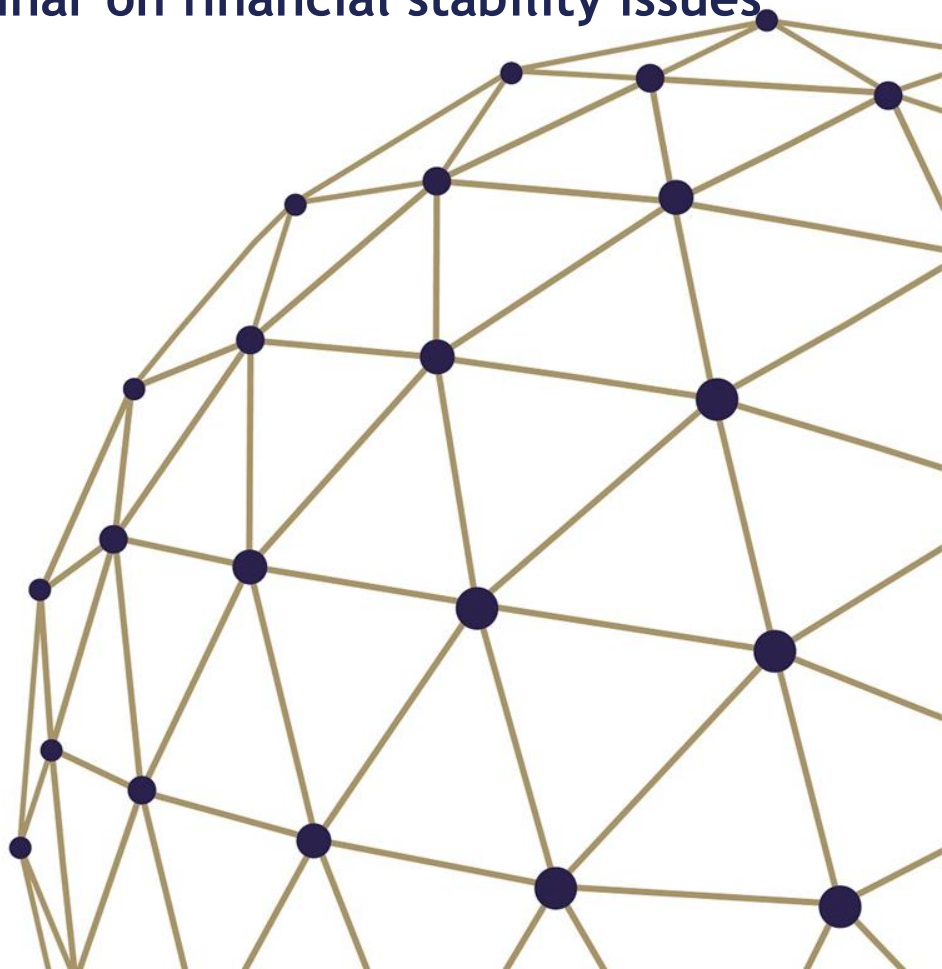


NPL problem and resolution through Hungarian lenses

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NBR&IMF Regional seminar on financial stability issues

26 October 2017





Speaking points

Why are we concerned about high NPLs?

Finding targeted tools and best practice

Hungarian experience in corporate NPLs

The handling of household NPLs in Hungary



Speaking points

Why are we concerned about high NPLs?

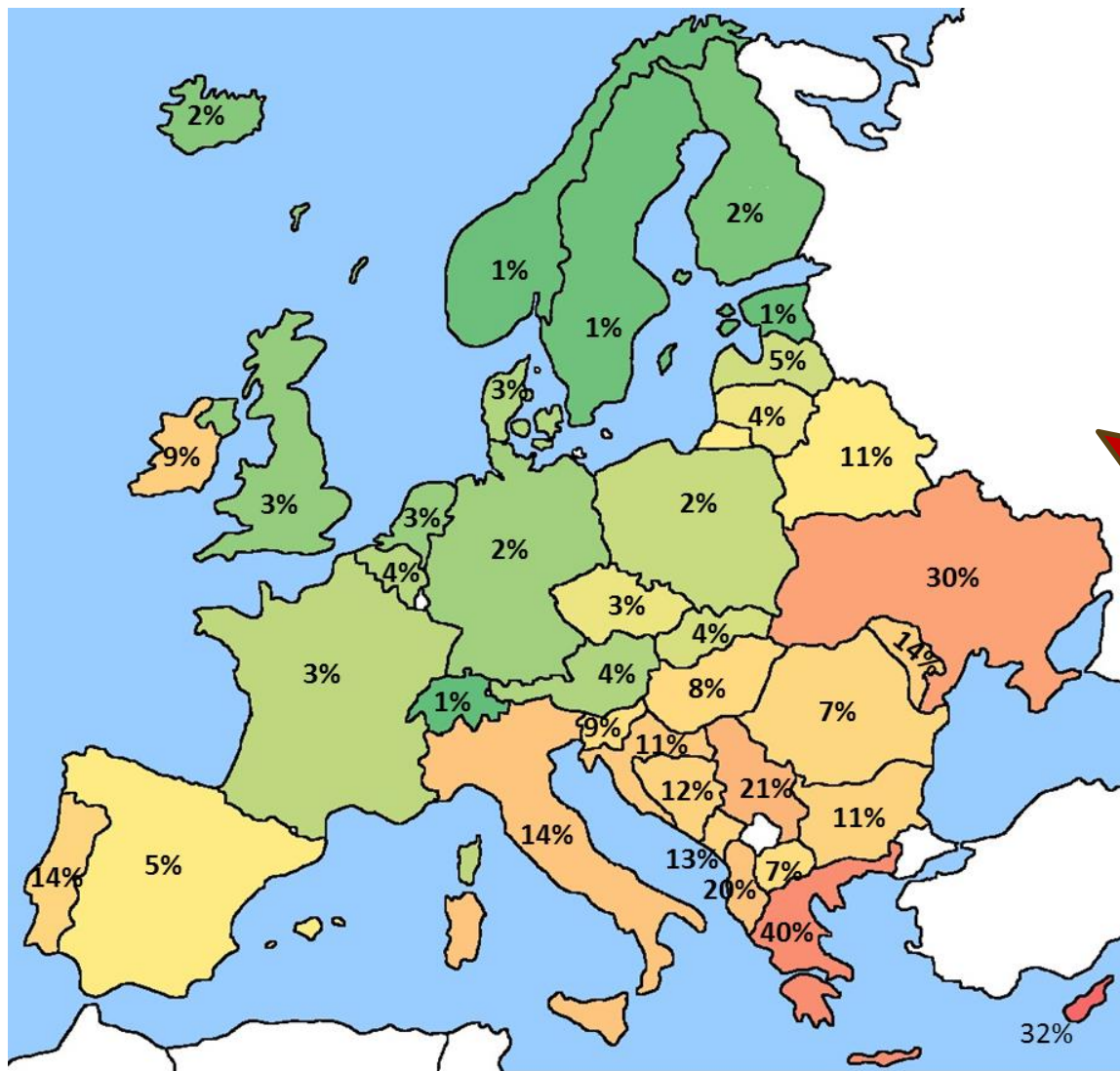
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Europe's long lasting legacy of the crisis with significant differences among countries



Nonperforming loan ratio across Europe 2017 Q1

~1 000 Bn EUR at EU-level



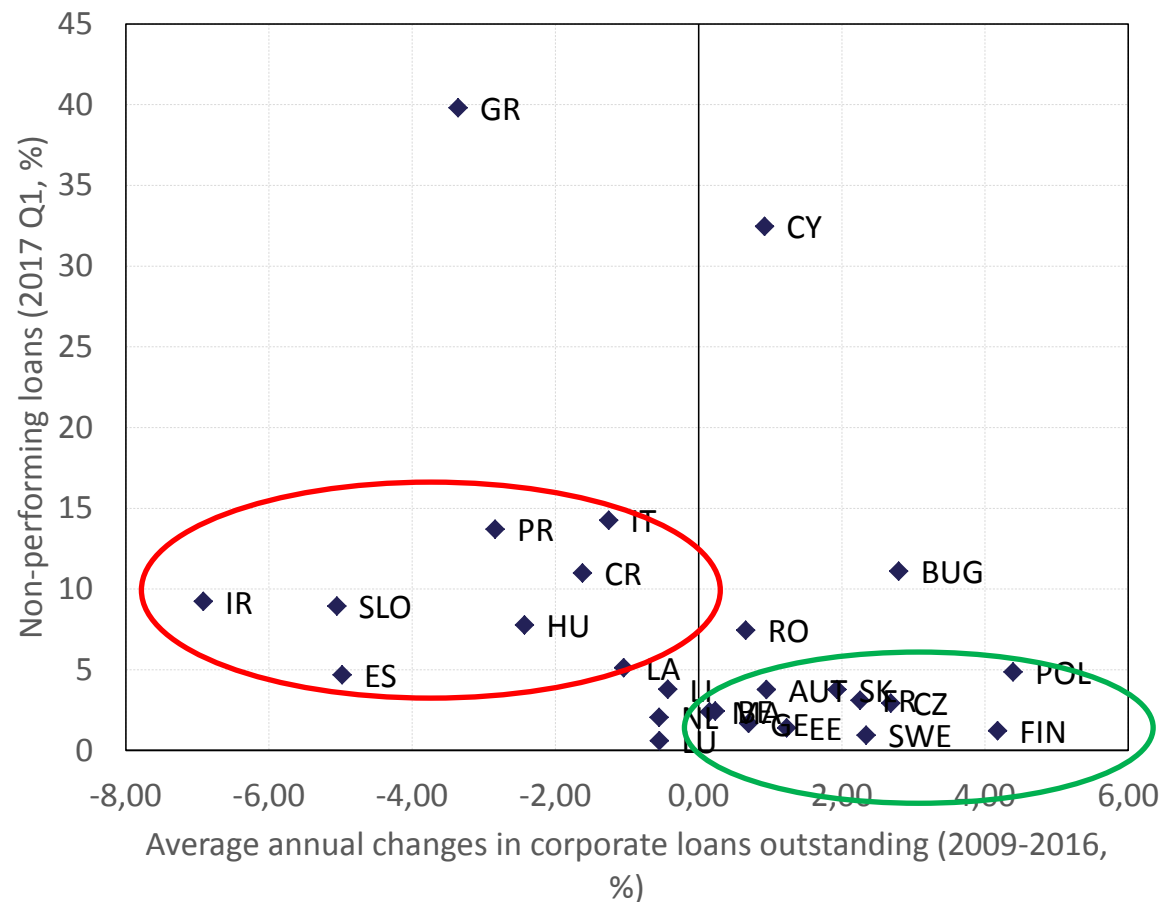
High NPLs are taking their toll on profitability and lending activity





Lending increased where the NPL ratio stabilised at a level of about 5% and vice versa

Corporate lending and non-performing loans by countries in the EU

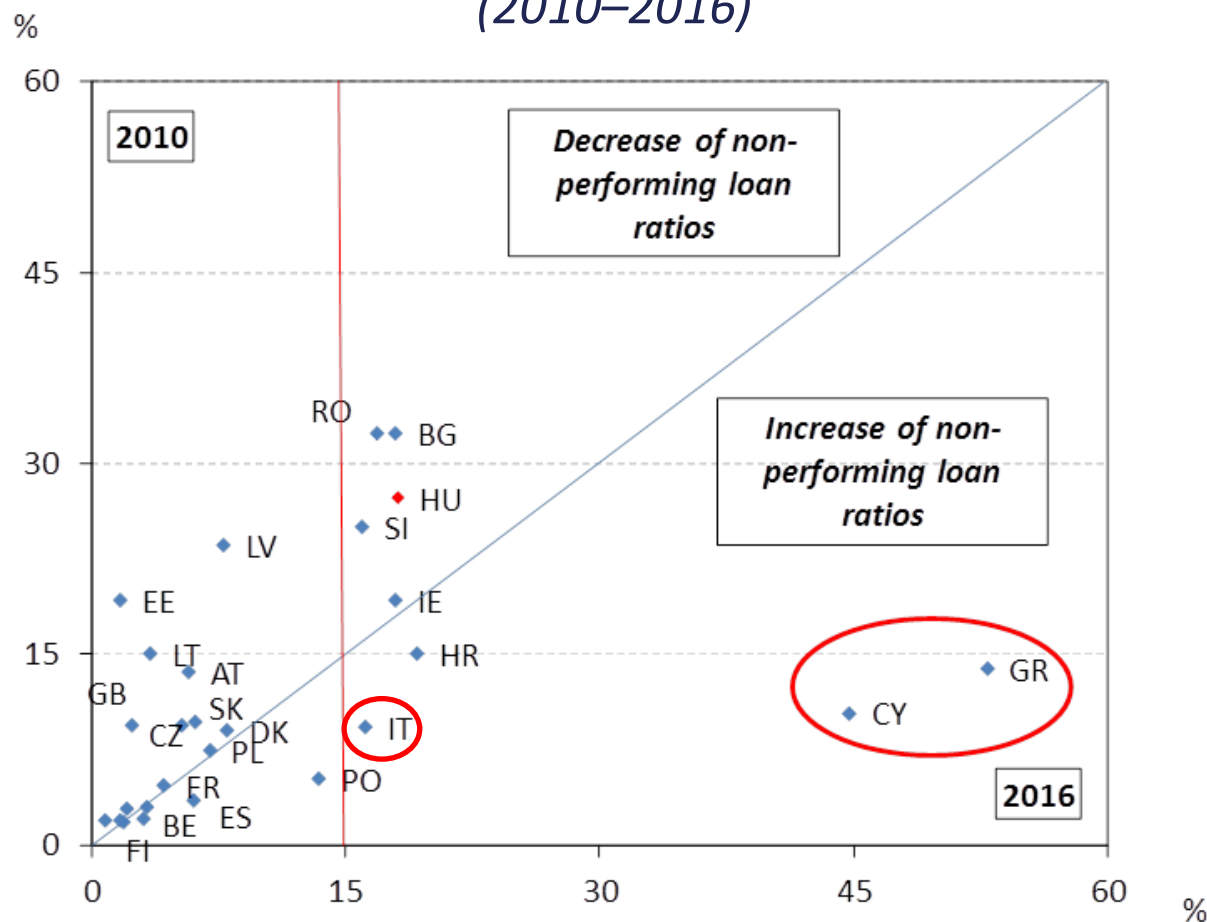


Source ECB.



Neither portfolio cleaning nor new credit flows were sufficient in some of the countries

Problem loans compared to gross loans outstanding in European countries (2010–2016)

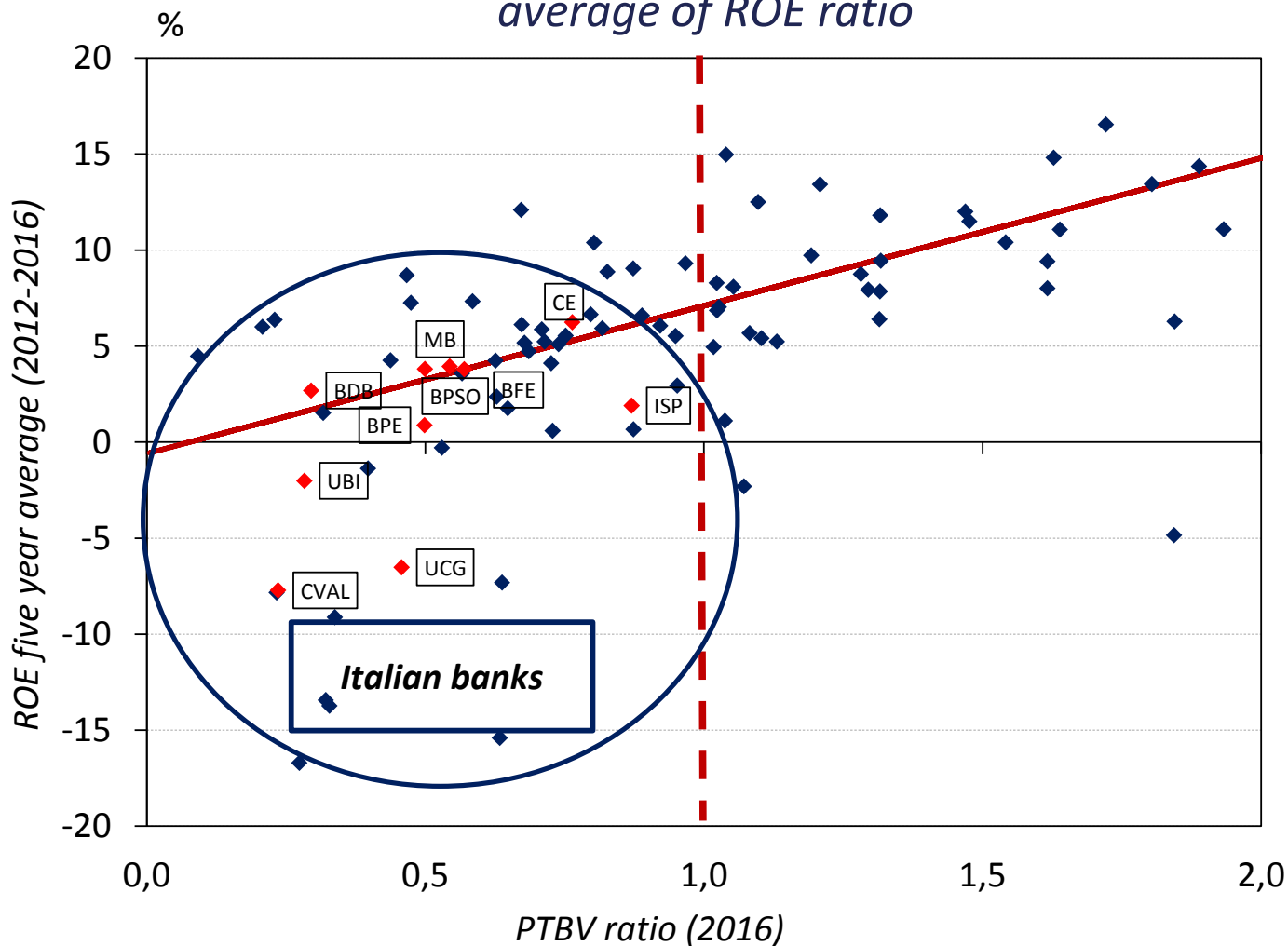


Source: ECB,CBD



Weak profitability leads to low market valuation, negatively affecting recapitalisation efforts

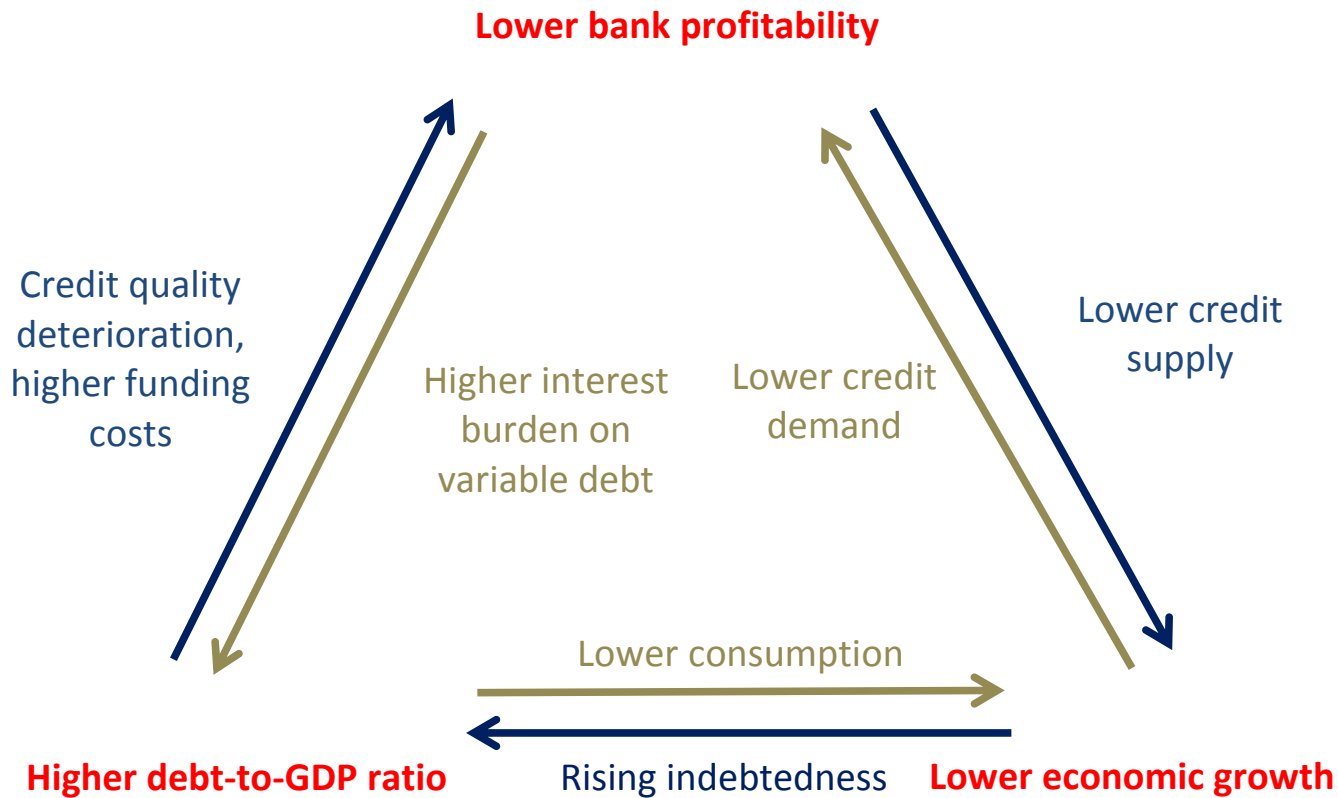
The relationship of European listed bank's price to book value and five year average of ROE ratio





The negative spillover into real economy can be broken through portfolio cleaning

Negative feedback loop between bank profitability and economic growth





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Coordination between national and international authorities is crucial



European Bank
for Reconstruction and Development



Technical assistance of institutions



European and cross-central banks workshops help to find best practice

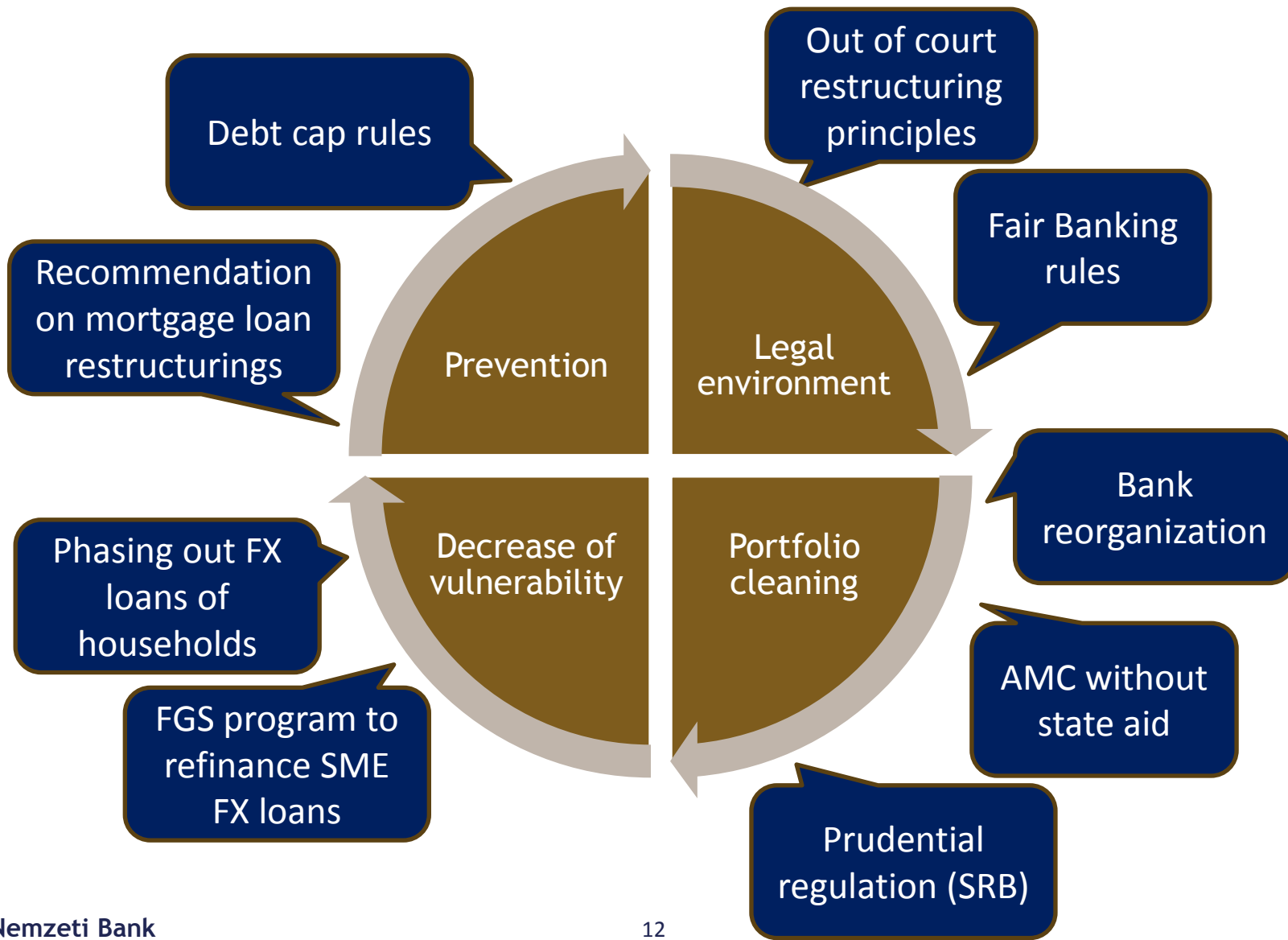


Central banks have the mandate to maintain the stability and to enhance resilience of the sector





Develop targeted tools, comprehensive approach required





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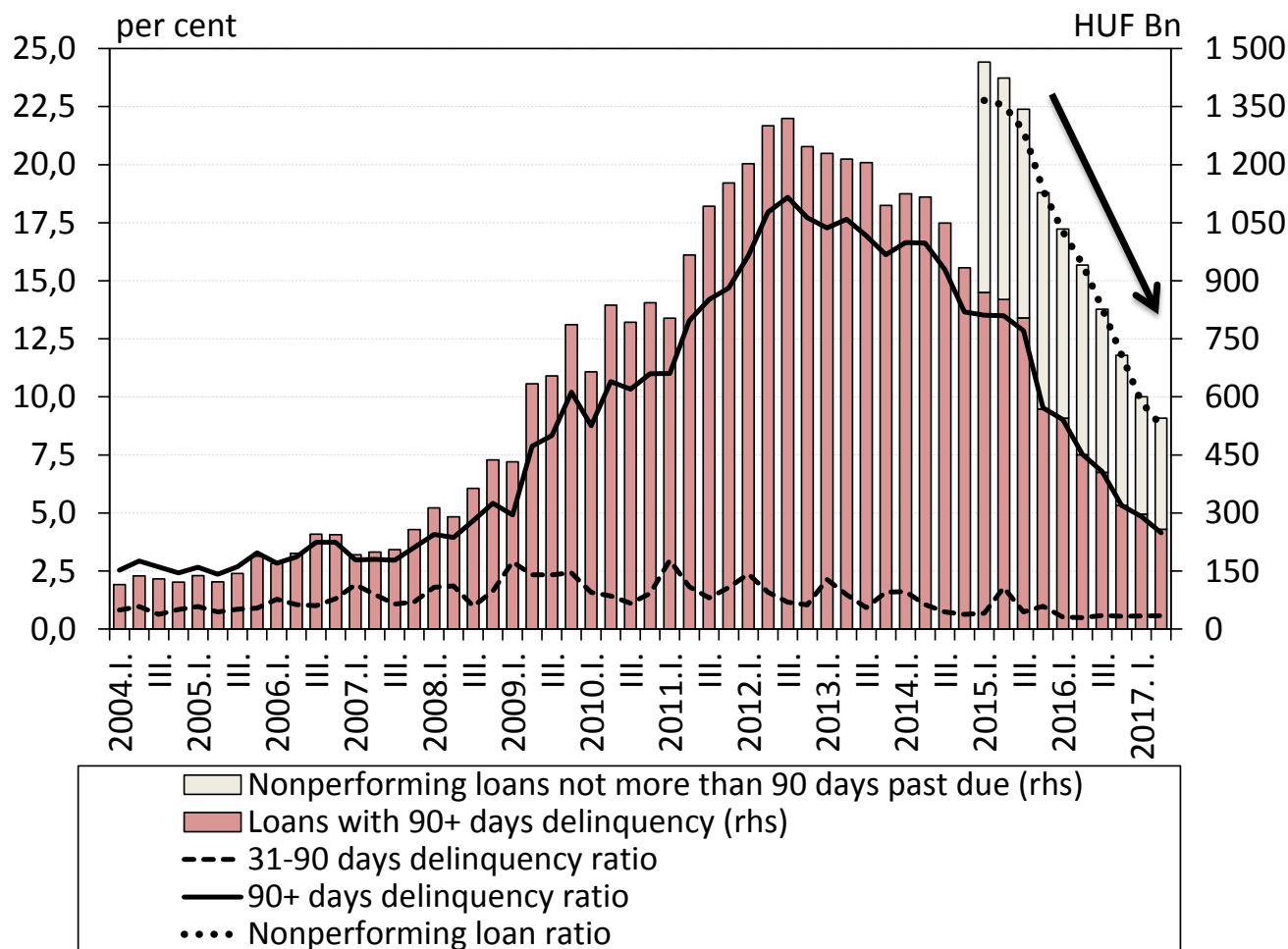
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NPL corporate loan ratio and volume decreased substantially

Share and volume of non-performing corporate loans of credit institutions





MNB's different experiences with AMC

AMC without state aid (first and precedent)



Accelerate portfolio cleaning

Voluntary participation of banks

Promote sustainable economic growth

MKB Bank resolution

Return to viability

Compliance with BRRD

Sale of business

Asset separation tool



The problem is commercial real estate related project loans in both cases

Market price of CRE and CRE receivables needs to be determined

Market price

No state aid is allowed

REV*: collateral based approach, market value is the starting point and precedent state aid content ranges



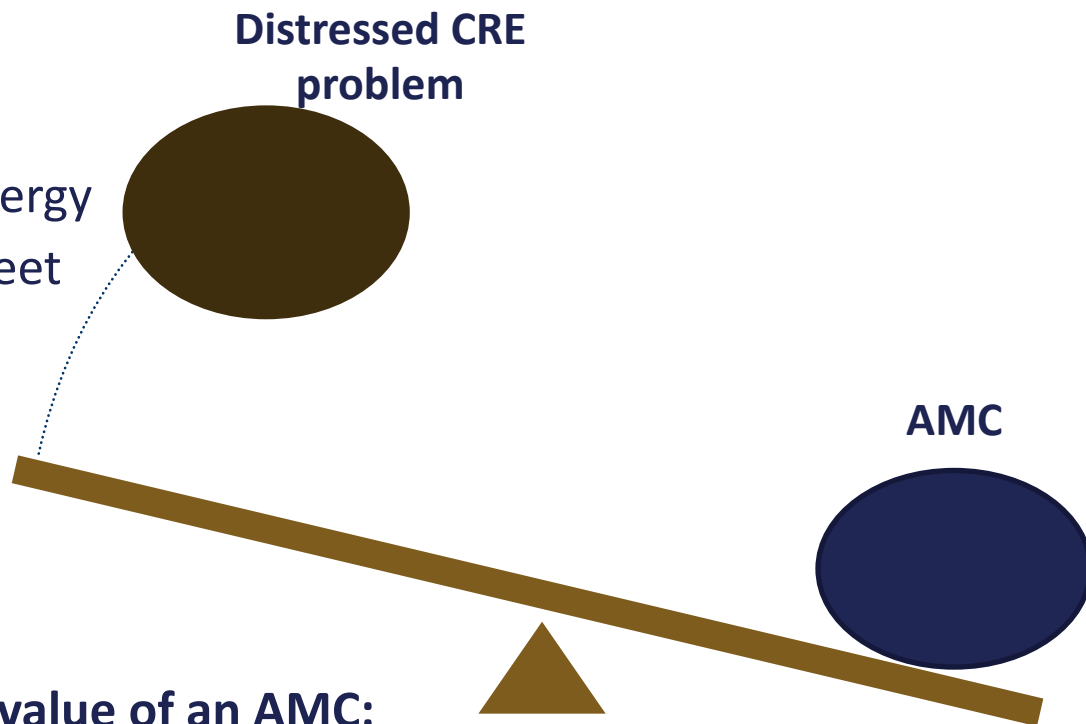
An AMC is better suited to handle distressed loans while relieving banks

Pro for the banks:

They can free up

- Resources
- Management concerns and energy
- Lurking risks in the balance-sheet

They can focus on new business opportunities

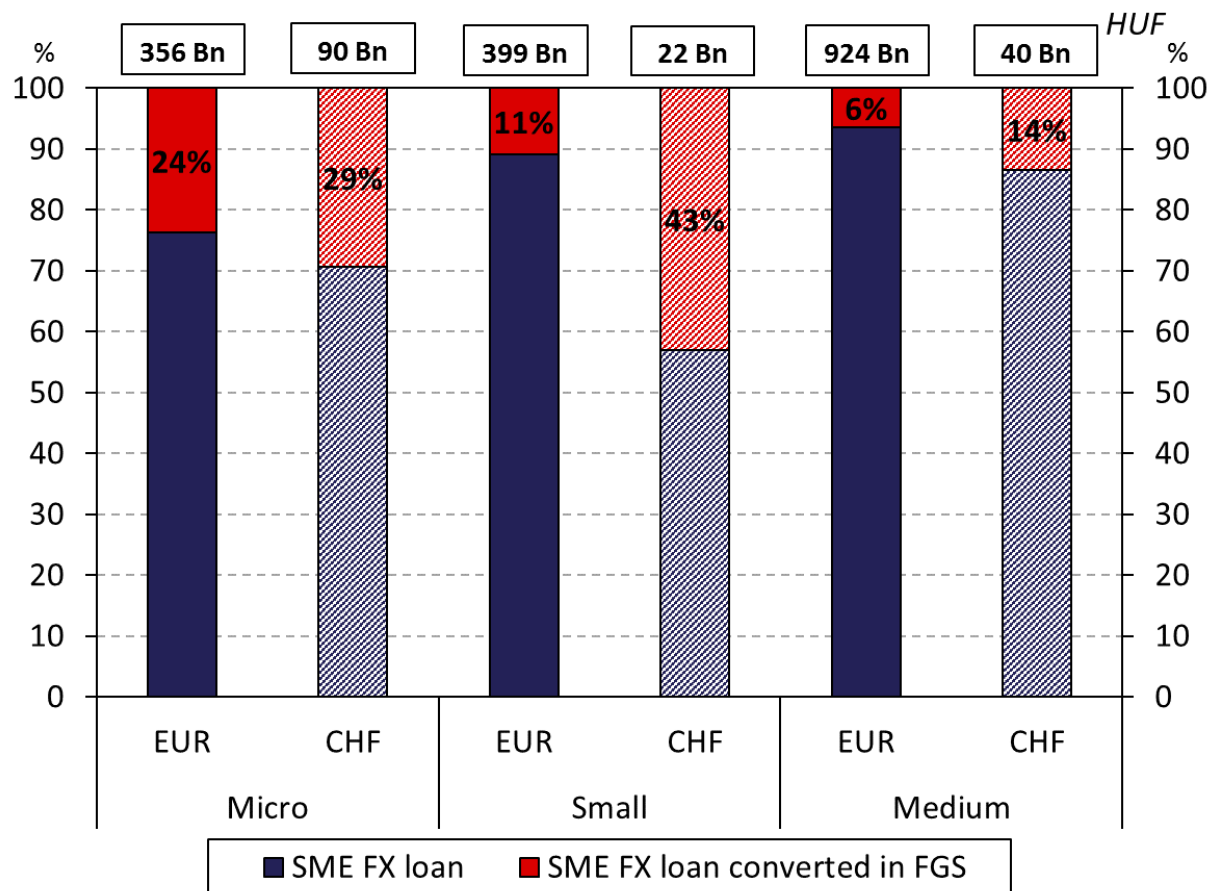


Added value of an AMC:

- Long-term view, while banks can focus on lending
- Bundling of assets, creating size
- Broader restructuring toolkit
- State-of-art servicing platform



12 per cent of performing SME FX loans were converted in the first phase of the FGS



SME FX loans in Q2 2013 by company size



OOCR Recommendation to prevent the future build up of NPLs



European Bank
for Reconstruction and Development



➤ Applies for:

- Syndicated loan facilities reaching HUF 1 bn, and also for
- Facilities of a borrower from several financial institutions, in case the sum of outstandings reaches 1 billion HUF



➤ Involvement of independent consultants

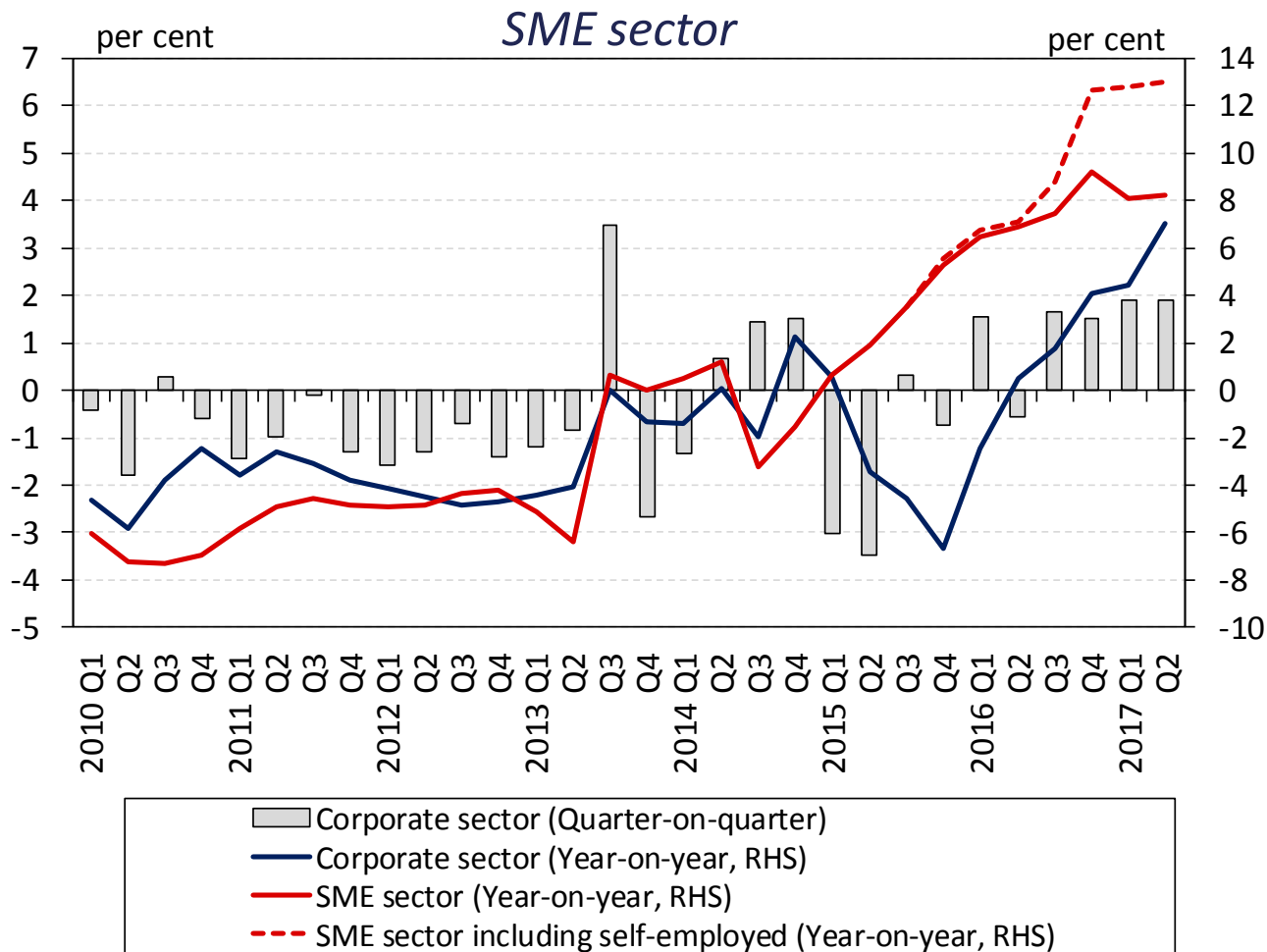


➤ Setting up Creditors' Committee (communication, information sharing, decision making, cost sharing)



New credit flows help improving portfolio quality

Growth rate of loans outstanding of the whole corporate sector and the





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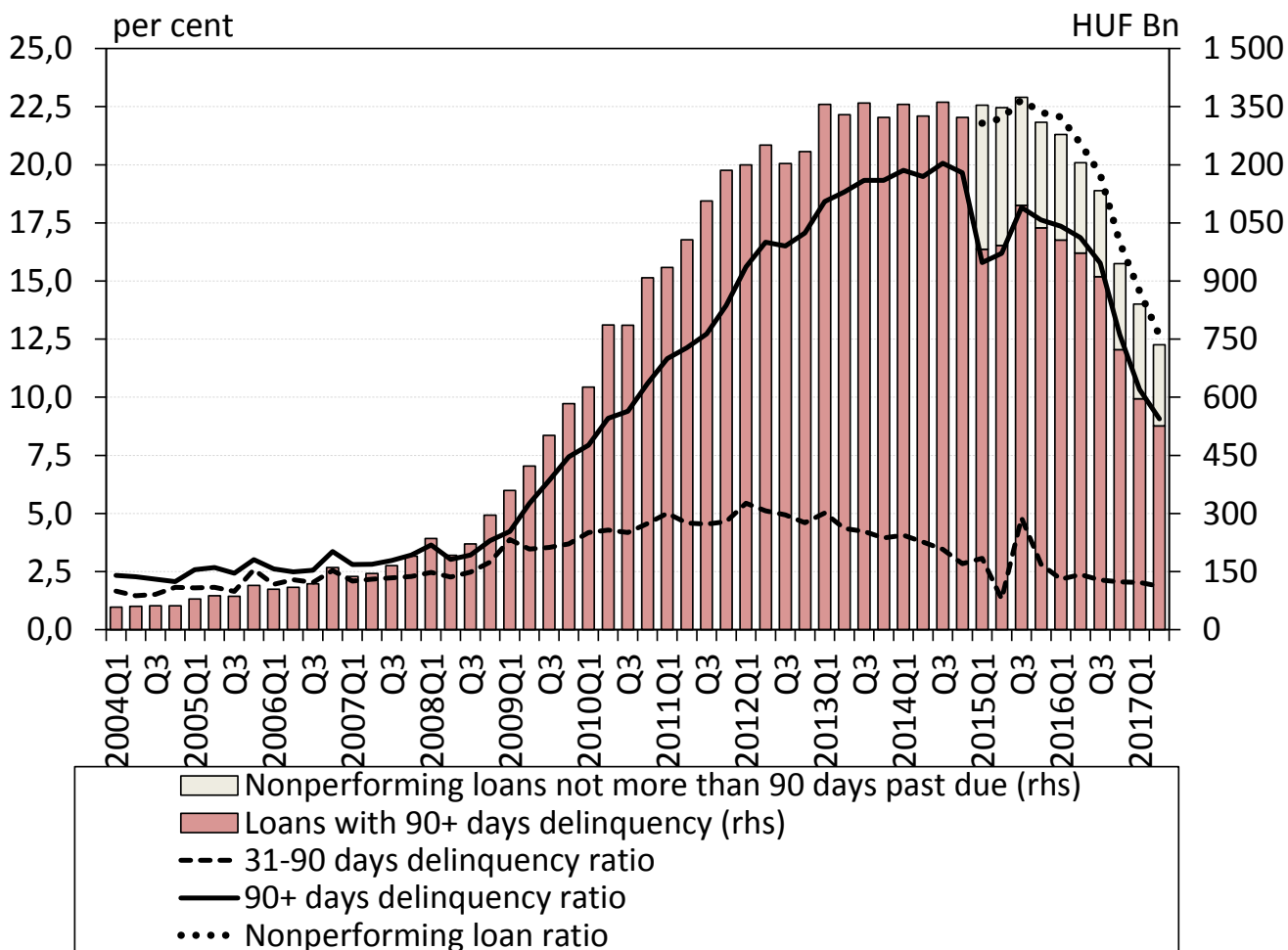
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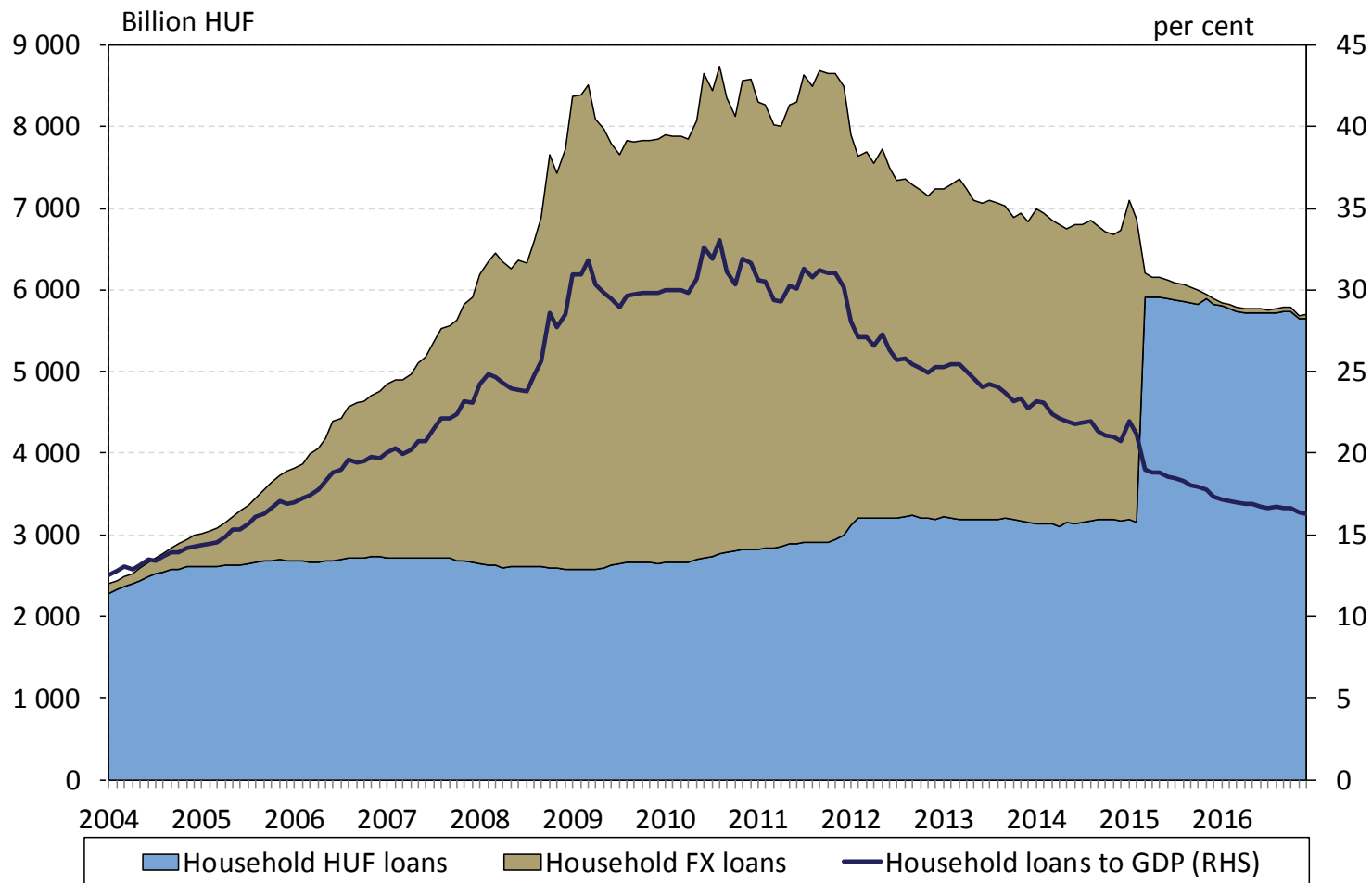
FX lending and crisis legacy caused significant NPLs in household segment

Share and volume of non-performing household loans of credit institutions





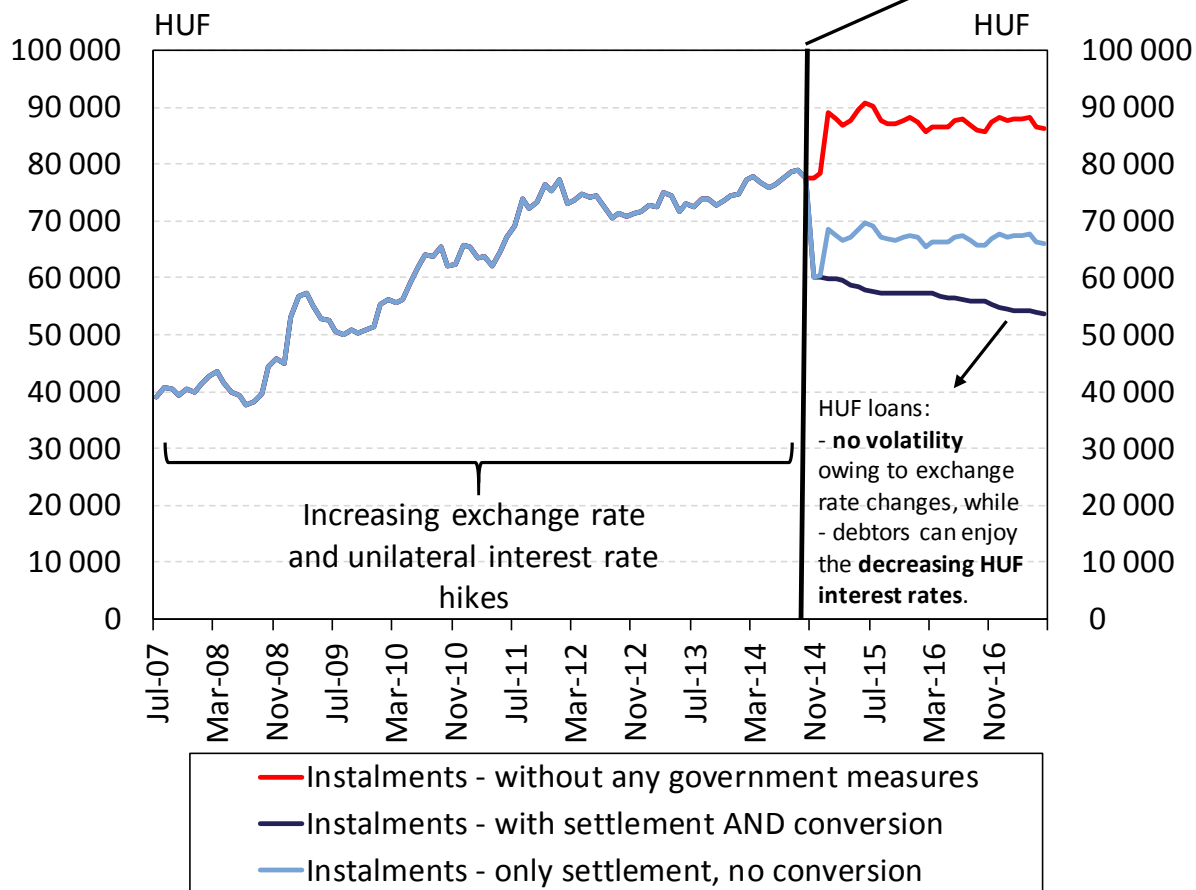
The conversion to HUF virtually eliminated FX loans from the households' balance sheet



Household loans outstanding from the credit institutions



Conversion + settlement = perfect timing



Two government measures

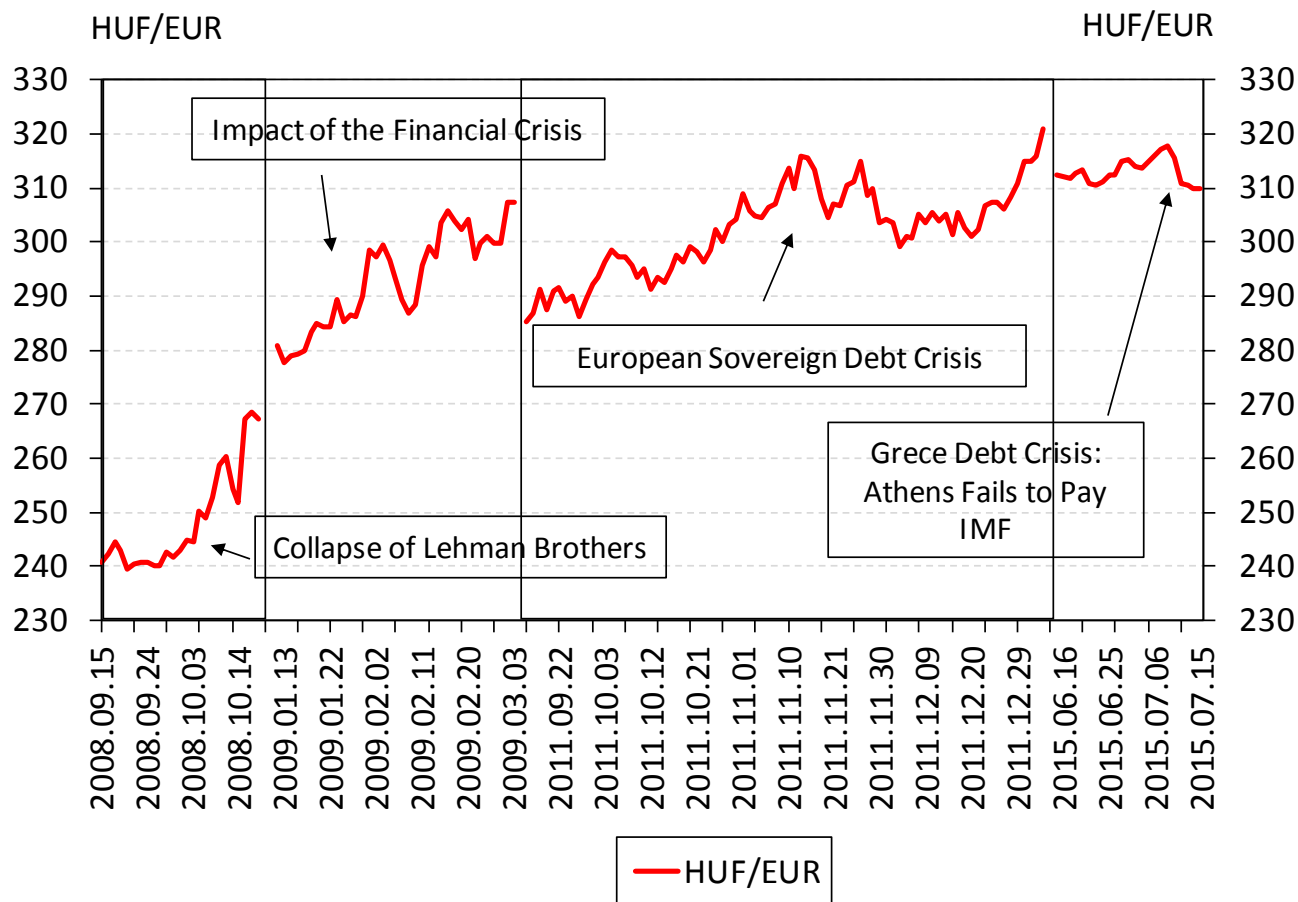
Banks had to pay back „overpayments” made by debtors as a consequence of unilateral interest rate hikes

FX loans were converted to HUF at market exchange rates (Nov 2014)

Instalments of a typical FX mortgage debtor assuming different scenarios of government measures



Vulnerability and volatility of HUF eased after the conversion



HUF/EUR rate during financial turmoils



The MNB adopted a new macroprudential regulation in order to prevent excessive household indebtedness

		HUF	EUR	Other currency
Payment-to-income ratio	Under HUF 400,000monthly income	50%	25%	10%
	At HUF 400,000monthly income or above	60%	30%	15%
Loan-to-value ratio*	Mortgage lending	80%	50%	35%
	Car loans	75%	45%	30%

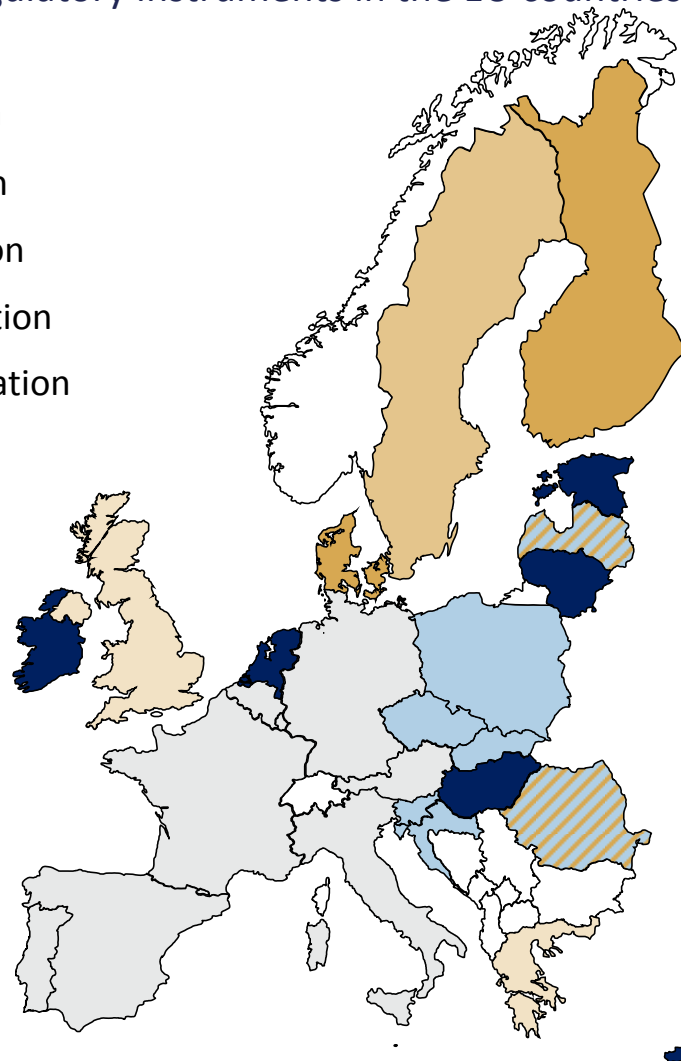
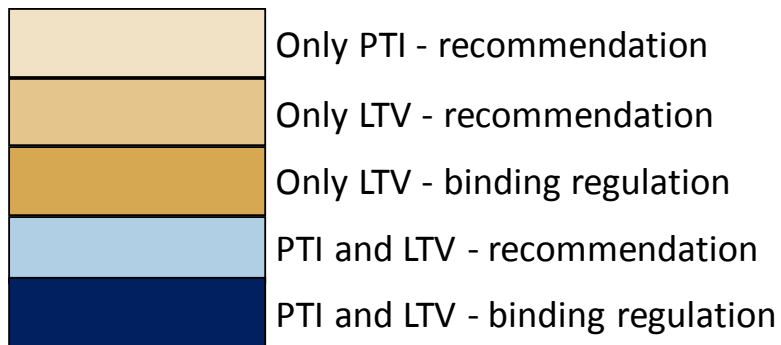
* LTV caps 5 percentage point higher can be applied to financial leasing

Maximum payment-to-income and loan-to-value ratios



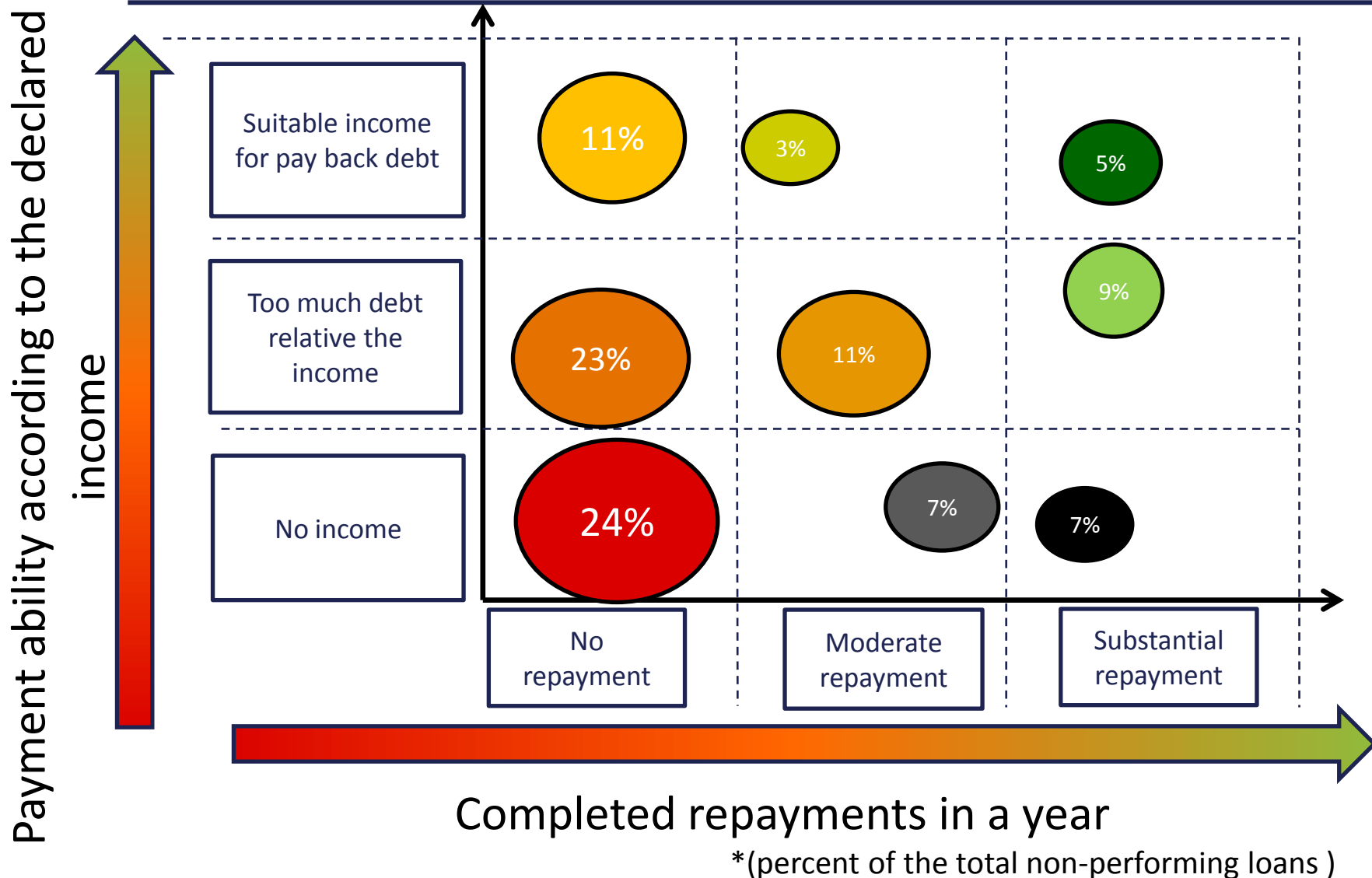
MNB is one of the most active macroprudential regulator in Europe

Debt cap-type regulatory instruments in the EU countries



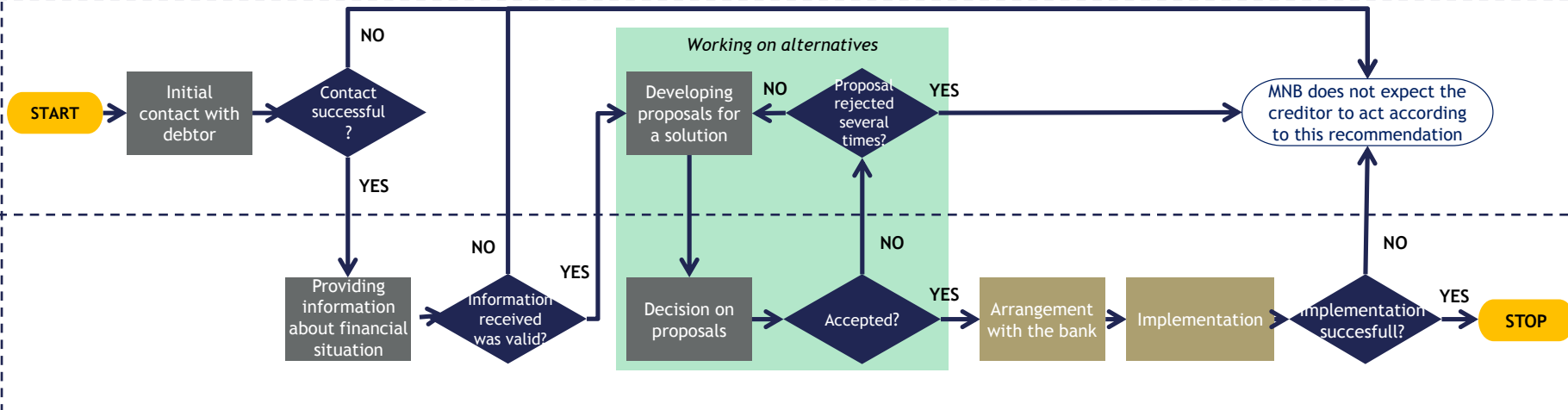


MNB's NPL study: Sometimes identification of the problem is more complex





MNB recommendation: the process of finding a solution

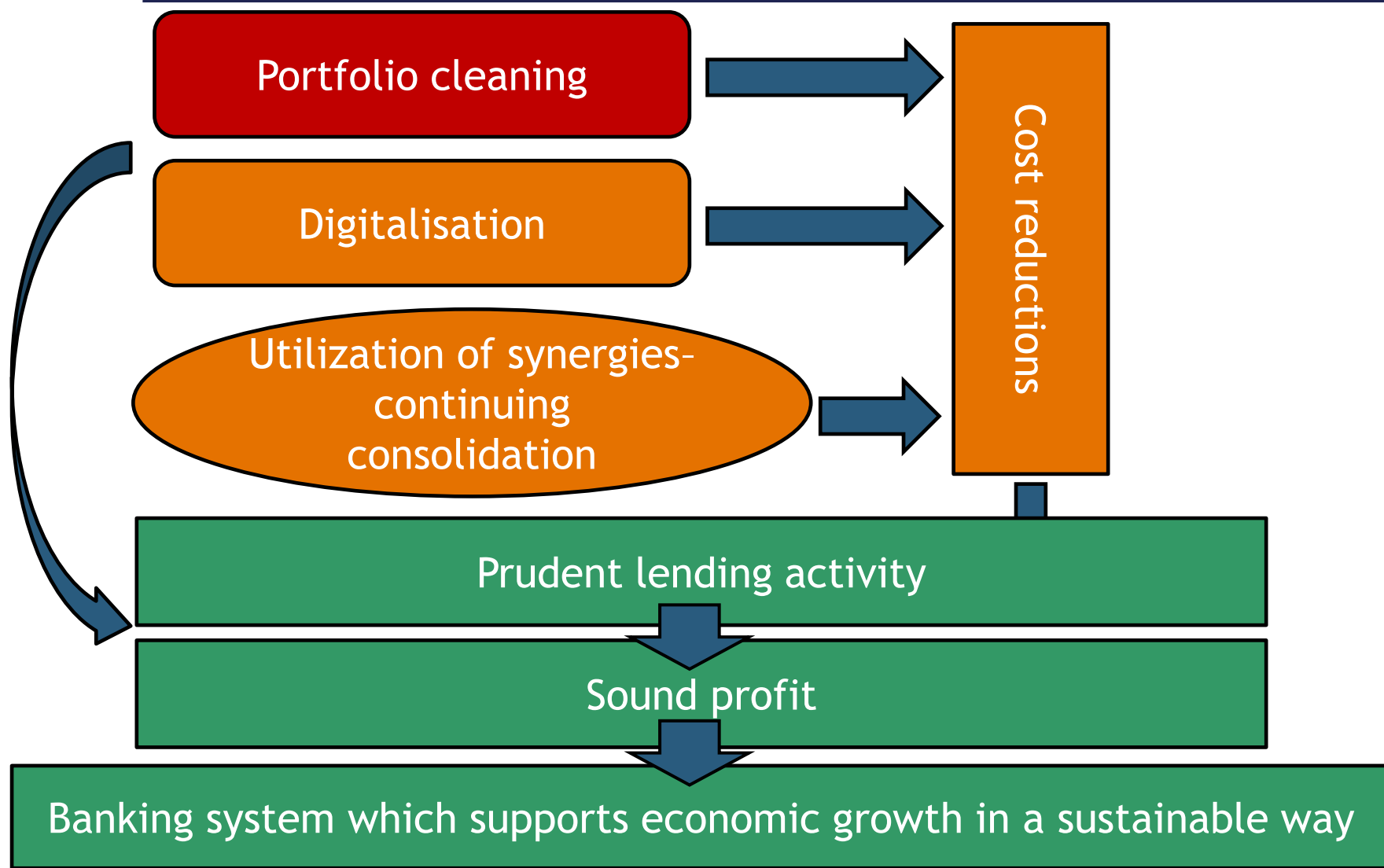


Focus points of MNB's recommendation:

1. General and specific rules of engagement and communication with debtor
2. Rules on how to collect and handle information
3. Rules governing the assessment of the situation
4. Rules on how to search for a solution
5. Rules of the arrangement and implementations
6. Evaluation of the collaboration and its consequences
7. Expectation regarding work organization
8. Supervisory and reporting requirements
9. Standards relating effective remedies and consumer protection



Only a profitable banking system can support economic growth in a sustainable manner





Thank you for your kind attention!

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