

NPL Reduction Strategy in Bulgaria

FSAP findings and recommendations

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FSAP NPL note on collateral valuation I

- Findings:

- outdated and excessive collateral valuations;
- one reputable appraisal company can issue substantially different appraisals (the same methodology and time period);
- some appraisers are not members of the Chamber of Independent Appraisers of Bulgaria (i.e., do not adhere to international standards);
- the BNB does not regulate which appraisal methodologies could be used;
- ECB guidance on NPLs applies only to banks under SSM supervision, thus creating an environment of different appraisal requirements.

- Problems associated:

- delay and distort the determination of NPL resolution strategy (forbearance, sale, collat. enforcement, insolvency);
- undermine investor confidence, contributing to NPL pricing gap.

FSAP NPL note on collateral valuation II

- Solutions:
 - additional BNB supervisory scrutiny on collateral valuation:
 - minimum valuation criteria for appraisal;
 - criteria for appropriate time lines for value recovery from collateral;
 - criteria for very delinquent loans (e.g., after 12 month with no action, 20% discount; after 24 months, 40% discount).
 - BNB issues supervisory guidance with minimum collateral valuation practices including:
 - frequency of valuation;
 - valuation methodology;
 - special valuation rules for foreclosed assets.

Stocktake of collateral valuation practices in the EU

Supervisory guidance on collateral valuation (beyond current regulation)

Jurisdictions with high NPL levels

	CY	GR	IE	IT	PT	SI	ES
NCA has published guidance on:							
specific rules on valuation methods	✓	×	✓	✓	✓	✓	✓
rules on valuation frequency for NPL collateral	✓	×	✓	×	✓	×	✓
NCA has specific requirements:							
for appraisers	✓	×	✓	✓	✓	✓	✓
for data collection on collateral	✓	✓	✓	✓	✓	✓	✓

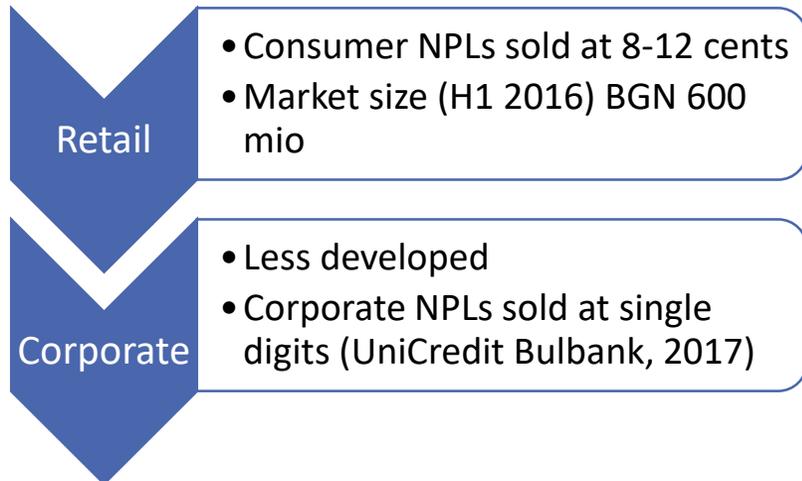
Jurisdictions with low NPL levels

	AT	BE	DE	EE	FI	FR	LV	LT	LU	MT	NL	SK
NCA has published guidance on:												
specific rules on valuation methods	×	✓	✓	×	×	×	×	×	×	×	✓	✓
rules on valuation frequency for NPL collateral	×	×	×	×	×	✓	×	×	×	×	×	×
NCA has specific requirements:												
for appraisers	×	×	✓	✓	×	✓	✓	✓	×	✓	✓	✓
for data collection on collateral	×	×	✓	×	×	×	×	×	×	×	×	×

- The findings of the ECB “Stocktake of national supervisory practices and legal frameworks related to NPLs”, clearly show a tendency for an additional supervisory guidance, in particular for the countries with high NPL ratio;
- For some reason, Bulgaria was not part of this exercise.

FSAP NPL note on NPLs market

Description of NPLs market in Bulgaria



Impediments for NPLs market development

- Collateral enforcement is long (2.5-3 years for commercial and 1.5-2.0 years for residential real estate);
- Recovery rate in insolvency is 35% (OECD average 73%)
- NPL pricing gap is wide:
 - NPL provisioning level at banks and
 - valuation of collateral (investors have more realistic valuations);
- Notification of the debtor is a problematic area.

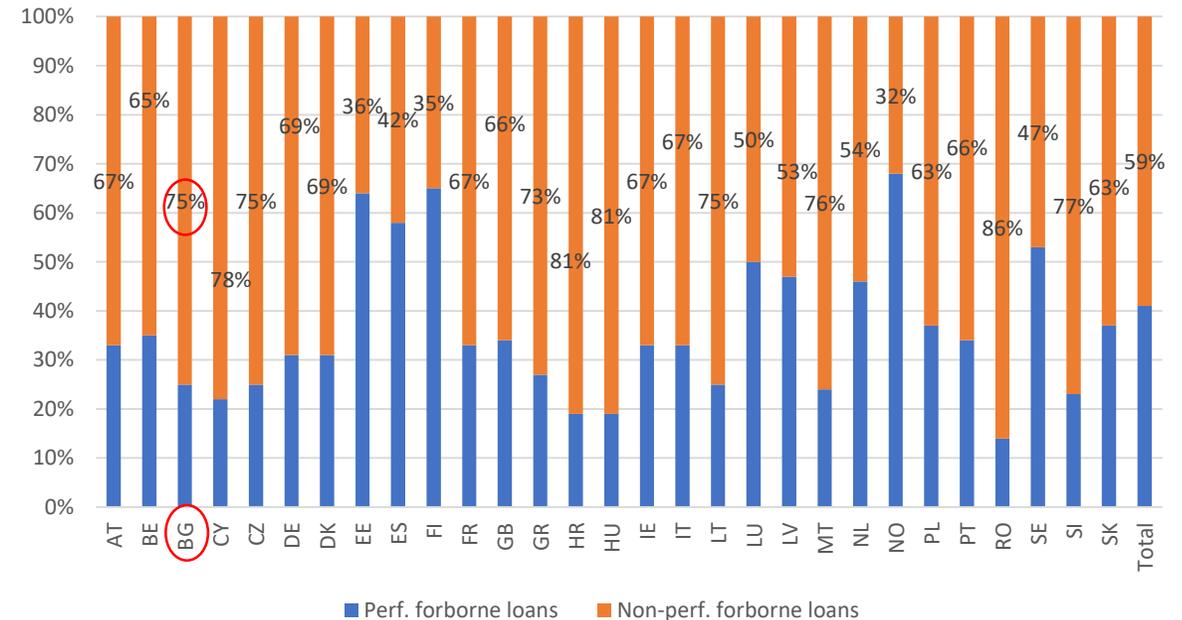
Recommendations:

- Improve collateral enforcement and insolvency procedures;
- BNB should consider equalizing requirements for all NPL investors;
- Stimulate the development of recovery partnerships.

Forbearance practices in Bulgaria

- The majority of forbore exposures in Bulgaria were afterwards classified as non-performing (75%);
- Among countries, there is a relationship between high NPL rate and high NPL forbore ratio (HR, HU, RO, SI, BG);
- The correlation ratio between NPL rate and NPL forbore for non-financial corporations is close to 0.6 in the EBA sample.

Forborne loans falling back into performing and non-performing categories (EBA definitions).



Source: EBA Report on the Dynamics and Drivers of NPE in the EU Banking Sector, July 22, 2016. Covers 3 largest banks in Bulgaria.