European debt sellers trade €103bn of deals

After the Brexit vote, reports claimed that investors would delay decisions in many sectors. But a new study on loan sale transactions from Deloitte shows that, across Europe, around €103bn of portfolios were sold last year. AMBER-AINSLEY PRITCHARD reports

The UK market for loan portfolio sales has €19bn (around £16.2bn) face value of ongoing transactions to be completed this year, according to a report from Deloitte.

The accountancy firm's study also shows that €13bn (around £11.1bn) face value of transactions were completed in the UK last year.

According to its **Deleveraging Europe 2016-2017 report**, published in February this year, Deloitte's analysis shows that loan portfolio transactions in Britain and across Europe stayed relatively high, despite the Brexit vote and political events in the latter half of 2016.

The study shows that in terms of transactions completed in the UK last year, Bank of America sold €8.5bn (around £7.2bn) of MBNA credit card portfolios to Lloyds Banking Group.

Lawrence Guthrie

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Permanent TSB also sold €2.8bn (c. £2.4bn) of residential debt to Cerberus in October 2016 and €260m (about £222m) of residential debt to an un-named buyer in December 2016.

Deloitte also mentions details of ongoing transactions in the UK, including the €19.1bn transaction of residential debt to be sold by UKAR, under the Project Rippon name.

Across the continent

The report found that more than €103bn of loan transactions were completed in Europe for the full year of 2016. Across the continent, it recorded 138 completed transactions for last year, as well as 56 ongoing deals in Europe at the end of 2016, representing €70bn by value.

David Edmonds, global head of portfolio lead advisory services at Deloitte, said: "After a mid-year pause in loan sales caused by the EU referendum, deal activity across Europe bounced back in the second half of 2016 to reach record levels.

"Non-performing loan resolution is high on the European central bank's agenda, and this is putting enormous pressure on domestic regulators to introduce regulatory and judicial measures that facilitate loan sale trading.

"In all markets there will be little let up in regulatory pressure on bank balance sheets. This will be the key driver for loan sale activity in 2017."

As well as a relatively healthy level of transactions across Europe, the signs also show that M&A activity in this market has by no means slowed to a halt.

Lawrence Guthrie, managing director of M&A advisory firm Quayle Munro, said the immediate reaction in the couple of months after the referendum was primarily one of caution and a "wait and see approach".

Business transactions became quieter during the summer, he added, which isn't unusual, but companies were back to business as usual come the autumn: "Upon the arrival of September and following early signs that the economy continued to perform reasonably well, most firms began to take an attitude which was more business as usual."

Guthrie paints a picture of initial, but brief, caution across the debt sale and purchase market in the summer. But so far, he has seen only a limited impact on debt purchasers' ability to raise funding.

"At the end of the day funds need to be invested and there isn't a particular near term cliff-edge definitive decision point. I guess people began to realise that this was going to be resolved over a period of years and they simply couldn't be inactive for a very long time."

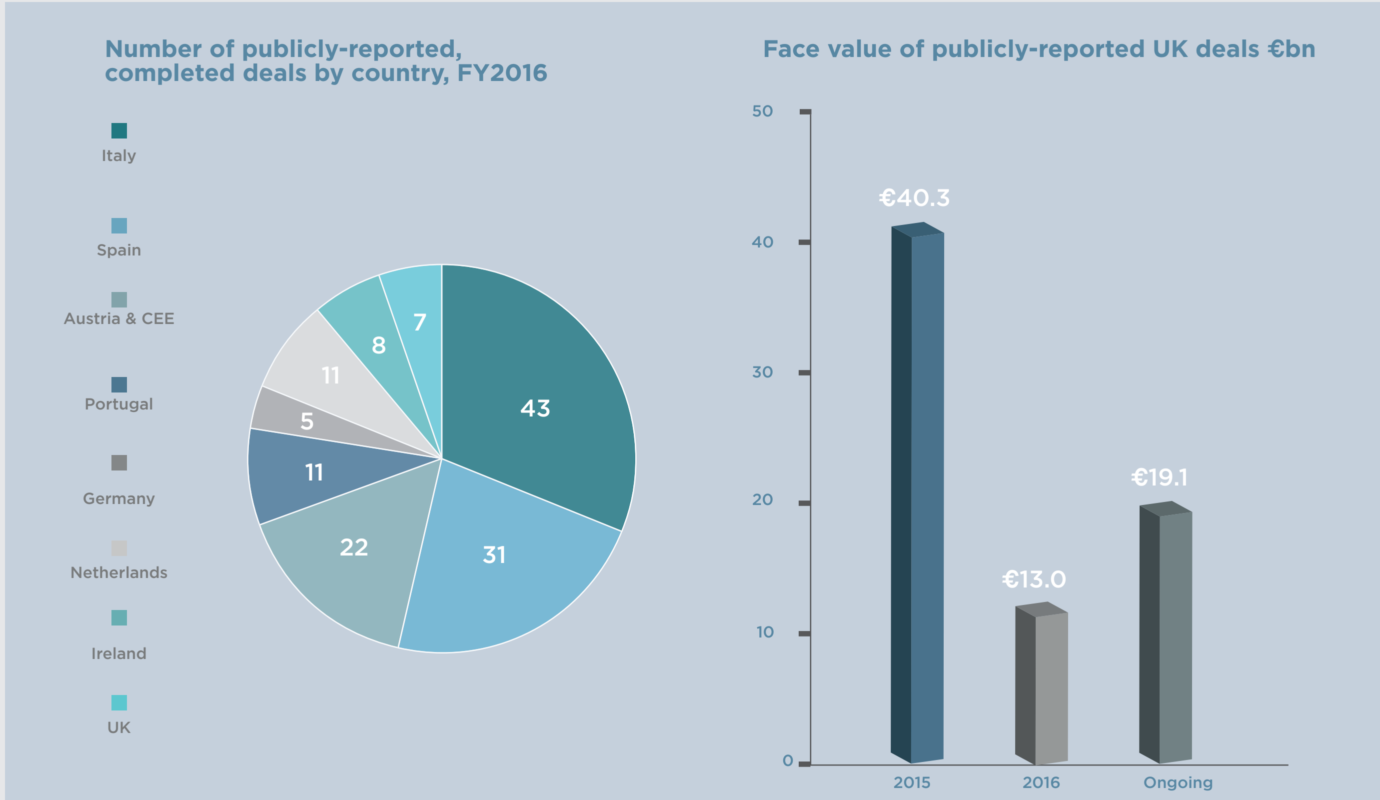
Guthrie gave an example of the resilience of some debt purchasers in the immediate aftermath of the referendum.

He said: "The share price performance of Arrow Global fell 35 percent over the 10 trading days between June 23 and July 6, but recovered all the losses by the end of October at which point it was 12 percent higher than the price on June 22."

On M&A activity, he highlighted the purchase of 1st Credit by Intrum Justitia and the merger of Intrum Justitia and Lindorff.

Colin Storrar, chief financial officer of GFKL Lowell Group, said that if organisations are funded by bonds which are denominated in both GBP and EUR, they will be naturally hedged as they are proportionate to the Sterling/Euro mix of assets.

If anything, companies such as GFKL Lowell are still eyeing up M&A opportunities. In February GFKL Lowell created a new position to lead a team focussing on M&A by identifying growth opportunities in the UK and Europe. The business appointed Matthias Gerhardt, previously of Arvato Financial Solutions, in this position of group director of corporate development.



Source: Deloitte: Deleveraging Europe 2016-2017

Transactions in a downturn

Peter Ward, partner and co-head of L.E.K. Consulting's European financial services practice, considered what might unfold in this market, should the economy take a hit amid uncertainty.

He highlighted the aftermath of the financial crisis of 2008, and the subsequent recession which resulted in a temporary shortfall of debt available to buy, and more debt being collected by debt collection agencies.

Ward explained how the UK may not be the most affected country by the leave vote, and that companies with strong international diversification could move capital and resources away from those countries most affected.

He added: "(This movement) could alter the competitive landscape and intensity in some countries. Companies without diversification could suffer if they become trapped in poorly performing markets."

Ward also described the potential effects Brexit could have on debt sale as a whole.

He said: "Any downturn could lead to a rise in loan defaults, resulting in higher volumes of debt available for purchase or outsourced collection by debt management firms over a one to two-year period, as the debt works its way through the system.

"However, this could be offset by lenders changing their priorities and selling less or no defaulted debt."

On the risk of a potential downturn in the UK economy, Storrar said: "Provided organisations have retained a strong focus on affordable and sustainable repayment plans and remained mindful of taking only a proportion of consumers' household disposable income when agreeing repayment plans, then a natural cushioning exists to household stress."

Future proof

In response to whether or not Brexit would influence the decisions PRA would make on future transactions, Tiku Patel, chief executive of debt buyer PRA Group Europe, said: "PRA has always taken a long-term view to the way we run our business. We will continue to price according to risk and underwrite based on our models and extensive data."

Patel believes current trends, such as the industry benefiting from the clearing of "historic" non-performing loans, will continue.

He added: "However, a number of strong international players are providing competitive solutions for creditors, and competition has led to higher pricing. This has encouraged more originators to use sale as a route to deal with non-performing debt."

Guthrie added: "Markets are probably going to remain fickle for quite some time as news of Brexit developments unfold with periods where debt issuance is inadvisable or not possible." **CS**