Multi-Faceted Problems

Article by Antreas Athanasopoulos, General Manager of Retail Banking, National Bank of Greece, at “EFMA Journal” (issue May/June 2013)

Antreas Athanasopoulos, General Manager of Retail Banking at National Bank of Greece highlights some key strategies to ensure effective results when managing distressed assets.

The management of loans, especially loans to individuals and small businesses, has proven to be a difficult task post-2008. This is because both banks and customers were caught under the attack of three adversarial forces:
1. The continuous economic crisis hampered customers’ ability to pay.
2. The deleveraging of portfolios reduced income to support provisions.
3. Equity reserves were not capable of addressing the avalanche of non-performing loan formation.

Problem loans do not affect only the banking system but the economy and the society as a whole. There are serious repercussions on the economic recovery, since those in hardship have to repay move progressively outside the normal economic activity. It is therefore an issue that draws significant attention across all economies with significant debt problems in the real economy. The solution to that problem is not straightforward and its nature has various facets: political, economic, operational banking, credit risk management and investment banking. Here I shall comment on some business and operational aspects of this issue.

Anticipating the macroeconomic cycle in a debt restructuring process
It should be recognised that during an economic crisis the distressed assets are ‘twice distressed’. Therefore the level and intensity of distress needs to take into account the movement of the economy and the prospect of recovery. There is no point in expecting speedy loan recovery when the recession deepens. Also, there is no point in trying to increase recoveries while the real estate market is going down. Therefore, the management of distressed assets is a synchronisation problem between the real economy and customer prospects.

Customers: analytic insight on the status of the client
A new segmentation era is necessary. Banks should segment customers based on recent and not past data. Segmentation should be used to differentiate the value proposition and also the channel contact approach. Segmentation needs to be sophisticated but also action oriented. Time is one of the valuable variables, since the faster you intervene at the lending customer, the higher the likelihood for success and loan survival.

It is also important to look at the overall capacity of the client and also at the level of current and future cash flows to make judgments on loan modifications. Collateral should be increased. You cannot repay loans with collateral during a crisis, but we need them for provisioning and customer commitment purposes. Therefore customers get the best deals providing they cooperate with the loan adjusters.

Settlements and exit strategies should be encouraged with clients that wish to settle even with small remedies included. Reward those that try to repay but do not succeed. Do not
exhaust the full spectrum of the restructuring plan to clients as the economic crisis may continue longer than expected.

Overall it is important to keep the social face of the bank alive, despite the costs that may entail. When loan cases are revisited then there are moments of truth with customers in real hardship. The bank must retain its social face and values despite the difficulties, as this is going to signal a sense of fairness across employees and customers.

**Channels and people**
A different workforce is necessary to address the problem. There are a number of things that can be done to ensure success here:

- Give incentives in order to steer the system in a clear direction. Incentives should be clear and should reward the contribution at each level of the system.
- Set sales target but do not be aggressive on approval rates: restructure as many as necessary to support the clients and the profit and loss of the bank.
- Be prepared for increased operating cost. Loan restructuring costs much more than the mainstream business. It has been found that a loan restructuring process takes from 45% to 75% longer compared to a normal credit decision and disbursement.
- Do not underestimate that the staff that contact and negotiate with clients are also customers and often are more indebted than the client! Sympathy and empathy are good marketing concepts but may go against the required standing from the staff of the bank. Front line employees are pivotal in the discussion and negotiations.
- Use your most advanced credit officers to negotiate with clients. Credit officers normally should not perform direct customer contacts. When restructuring is in place, however, the roles change dramatically and therefore you need your best talent to negotiate with customers. Typically the best loan adjusters are the most open-minded credit officers that do not necessarily stick to rules.

**Credit relationship management**
Effective credit relationship management is also key. All risk analytic tools should be analysed. Scorecards and behavioural models typically predict default. Re-default prediction and likelihood of retaining a loan modification are newer needs and their accuracy is not at desired levels.

It’s important to remember that the value proposition needs to be realistic. Many banks today have more restructuring products than products for new financing. Restructuring products need to accommodate the varying capability of the client to repay and also need to include strong incentives for clients to keep their promises. It is often the case that clients end up into a prospect theory that each restructure gets followed by the next one with better terms for the client. And this has no end.

Remember that customers need to get the feel that it’s an important business and not an easy task, so perform normal underwriting in the restructuring applications. Regulators also need to be convinced that the loan modification process is a real effort to revisit the customer and their credit facilities and not to hide loans under the carpet.

Finally, put all your sales tools in action but this time for the reverse job. All the skills that flourished during the commercial era are now necessary to identify, meet, negotiate and implement viable strategies on customer loans.