SAREB* Spanish Asset Management Agency from the Bank Restructuring process

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* In Spanish ‘Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria’
Agenda

• The origin
• SAREB structure
• SAREB Activities
• Goals since 2013
• Conclusions: 2015 and onwards
The financial crisis reduced liquidity availability for the financial system since 2007.

With Spanish mortgage market in its historical maximum.

**Mortgage loans for housing purchases**

(Number of loans and thousand of euros)

- **number of loans** (left axis)
- **total amount in thousand of euros**

Source: INE

Credit crunch
Origin

• 1st wave: Developers couldn’t sell the houses and came into bankruptcy
  – Financial institutions received the full projects as well as land.
  – Most of the existing development projects in 2007-2009

• 2nd wave: As the economy collapsed, other’s sectors firms were evicted from their properties used as debt collateral

• 3rd wave: Households start to fail in paying their mortgages.
  • Delinquency rate for households were stremelly low during first years of the crisis until 2012
  • Banks evict households and/or take the house.

• Results: increasing RE assets in Banks inventory
Origin

• Same time: restructuring process in the Spanish bank system
  • To adapt to Basel II and III requirements
  • Saving Banks without the possibility to calculate Tier ratios before they were transformed into Banks.
  • Increasing capital requirement as RE Project insolvency also rised.
    – Rapid balance sheet deterioration in those financial institutions specialized in mortgage market: Saving Banks
      • Faster as the economy meltdown advanced.
• Result: Bank system distortion.
  • Large presence of RE assets in the banks’ balance sheets
  • Affecting to those in the more dynamics areas
• Spanish banking system restructuring (9/2012 Act)
SAREB

- Spanish Asset Management Agency
  - Manages real estate assets and credits coming from the banking restructuring process
- Came into force late 2012
  - Act 9/2012 of Nov, 14th and RD1559/2012 of Nov, 15th
- Private company .. Governed by private law
  - 45% capital FROB (Banking Restructuring Fund)
  - 55% capital from private financial institutions

<table>
<thead>
<tr>
<th>Stackholders</th>
<th>% s/ Share capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>FROG</td>
<td>45,01</td>
</tr>
<tr>
<td>BCO Santander</td>
<td>17,28</td>
</tr>
<tr>
<td>Caixabank</td>
<td>12,44</td>
</tr>
<tr>
<td>Sabadell</td>
<td>6,93</td>
</tr>
<tr>
<td>Popular Español</td>
<td>5,97</td>
</tr>
<tr>
<td>Others</td>
<td>12,36</td>
</tr>
<tr>
<td></td>
<td>100,00</td>
</tr>
</tbody>
</table>
SAREB

• Mandate:
  – Recover RE asset losses resulted from bank disruption
    • Through hold, management, acquisitions and selling real estate and financial assets (transferred from restructuring banking system).
  – Max horizon: 15 years to reduce assets to zero

• Objectives:
  – Progressive reduction on the outstanding debt issued to finance the RE portfolio
  – Through selling, managing both awarded assets and credits:
    • Real estate assets: ownership and rented
    • Financial assets: credits with RE collateral:
      – Performing loans
      – Non performing loans
SAREB

- Balance sheet structure and bank assets contribution

**Sareb Balance Sheet at 31/12/2013**

<table>
<thead>
<tr>
<th>Assets</th>
<th>Equity and liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>9%</td>
</tr>
<tr>
<td>RE properties</td>
<td>20%</td>
</tr>
<tr>
<td>RE financial loans</td>
<td>71%</td>
</tr>
<tr>
<td>Cash and Subordinated Debt</td>
<td>9%</td>
</tr>
<tr>
<td>Debt issued (with Treasury secured)</td>
<td>91%</td>
</tr>
</tbody>
</table>

Pro-memoria: debt issued was €50,781 mill
Source: FROB and Sareb

- 9 Banks and Saving Banks as the source of RE/financial assets (2 groups of Banks/SB)
- 27 financial institutions (55%)+ FROB (45%) in capital contribution (banks, insurance companies and other firms)
- Sareb issued private bonds Public covered (Deuda senior)
- **Balance sheet structure and bank assets contribution**

### RE Assets

<table>
<thead>
<tr>
<th>Typology at 2012</th>
<th>% in num</th>
<th>% in euros</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing to rent (public)</td>
<td>39,15</td>
<td>28,89</td>
</tr>
<tr>
<td>Non residential to rent</td>
<td>7,56</td>
<td>11,05</td>
</tr>
<tr>
<td>Land-lots</td>
<td>13,40</td>
<td>33,50</td>
</tr>
<tr>
<td>Completed building to sell (housing)</td>
<td>35,93</td>
<td>20,96</td>
</tr>
<tr>
<td>Development</td>
<td>3,96</td>
<td>5,60</td>
</tr>
</tbody>
</table>

Total properties, Num: 77,034, around 58,000 houses *

*Equivalent to 16% of total housing and 50% of new housing both transacted in 2012 Possibly >70% of the total available land to build in Spain.

### Financial Assets (credits)

<table>
<thead>
<tr>
<th></th>
<th>% on 2012</th>
<th>Num.F.Asset</th>
<th>Euros</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performing</td>
<td>43,8</td>
<td>31,5</td>
<td></td>
</tr>
<tr>
<td>substandard</td>
<td>18,7</td>
<td>25,2</td>
<td></td>
</tr>
<tr>
<td>Non-performing</td>
<td>37,5</td>
<td>42,5</td>
<td></td>
</tr>
</tbody>
</table>

RE assets to transfer’s typology was decided by Law.
- Corporate loans up to 250 thousand euros/each
- Real estate foreclosed assets up to 100 thousand euros/each

Source: Sareb 2012 Report
SAREB

• Selling activity. Three channels
  – Retail Channel
    • Retail selling remains in each financial institution’s marketing network
    • Since 2015 specialised retailers have been committed:
      – Haya Real estate, Altamira AM, Servihabitat and Solvia (€48200)
      – Mortgage loans, developer credits (53,2%) and properties (46,8%)
  – Wholesale Channel
    • For institutional investors
    • Special financial vehicles like FAB (Fondo de Activos Bancarios)
      – Also evaluating REITs (Socimi in Spain)
      – Tax advantages (1% corporate tax for residents)
  – Portfolios
  – Singular Assets…. Special portfolios
• 2nd Channel: FAB defined in 9/2012 Act
  – Flexible Investment Fund
  – Registered and controlled by Stock Exchange Authority
  – Submitted to a transparency and publicity principles
  – For institutional investors
  – Sareb participate in a % of issued capital
  – 5 FABs listed at feb. 2015:

<table>
<thead>
<tr>
<th>FAB Name</th>
<th>Main RE Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>FAB 2013 BULL, FONDO DE ACTIVOS BANCARIOS</td>
<td>32 complete building + 2 development. Houses</td>
</tr>
<tr>
<td>FONDO DE ACTIVOS BANCARIOS CORONA</td>
<td>4 Office building</td>
</tr>
<tr>
<td>FAB 2013 TEIDE, FONDO DE ACTIVOS</td>
<td>32 complete building + 2 development (Houses) + land</td>
</tr>
<tr>
<td>BANCARIOS</td>
<td></td>
</tr>
<tr>
<td>FONDO DE ACTIVOS BANCARIOS MAY</td>
<td>Urbanizing land</td>
</tr>
<tr>
<td>FONDO DE ACTIVOS BANCARIOS CROSSOVER I</td>
<td>Urbanizing land</td>
</tr>
</tbody>
</table>

Source: CNMV and Sareb Reports

• Mix products with change composition (as properties are sold)
**SAREB**

- **Portfolios …Specific composition**

<table>
<thead>
<tr>
<th>Portfolios sold (2014-15)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Name of portfolio/instrument</strong></td>
</tr>
<tr>
<td>Dorian</td>
</tr>
<tr>
<td>Pamela</td>
</tr>
<tr>
<td>Aneto,</td>
</tr>
<tr>
<td>Agatha,</td>
</tr>
<tr>
<td>Meridian</td>
</tr>
<tr>
<td>Olivia</td>
</tr>
<tr>
<td>-Special:</td>
</tr>
<tr>
<td>Office building in Barcelona</td>
</tr>
<tr>
<td>Kaplan process with developers credits</td>
</tr>
<tr>
<td>Exceptional lots in Madrid or other capitals</td>
</tr>
<tr>
<td>- Social activity</td>
</tr>
<tr>
<td>Public houses Assignement to rent .....</td>
</tr>
</tbody>
</table>
SAREB goals 2013-2014

• Reducing issued debt by 9.26% in two years (3.5% and 5.7%) ... on the way.

• Selling properties and loans with premium (based on the accounting cost).
  • 22% and 18% in real estate assets and credits respectively
  • Not market prices. The transfer was done with strong reduction on accounting Price (-70% for land on average, 40-50% on houses)

• Selling ‘good assets’: rented houses, performing loans
  – Portfolios, FAB and especial portfolios
  – Less in retail

• Strong effort organizing and managing the portfolio. Portfolio is located along all Spain
SAREB goals 2013-2014

• Using the whole Spanish specialized sales network for retail.
  – Rapid reaction to a potential rise in demand
  – Agreements with financial institution to finance

• But:
  – Difficult market situation. Demand does not recover
    • Slightly better in 2015
  – High leverage in Sareb system: dependence of interest payments.

<table>
<thead>
<tr>
<th>SAREB (in %)</th>
<th>Amortization/gross income</th>
<th>Debt interest payment/gross income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>52,6</td>
<td>33,5</td>
</tr>
<tr>
<td>2014</td>
<td>68,3*</td>
<td>22,7*</td>
</tr>
</tbody>
</table>

* Whole 2014 advance
Source: Sareb Reports.
SAREB goals 2013-2014

- No RE management, financial management.
- Social compromise?
  - Starting slightly since 2014: 680 houses transferred to Regional Government to rent
  - Technological/sustainable methods when developing projects
- So soon to evaluate
- Takes time.

* Whole 2014 advance
Source: Sareb Reports.
2015 and following years

• Credit rationing still exists but demand is recovering
  – Uncertainty about the way to mortgage market to recover.
• Housing prices start to rise as vacancy rate tend to zero
  – No supply (new or existing) in most markets
  – Demand comes from new households and strong labor mobility.
  – Then.. Prices will rise increasing Sareb RE assets prices
• Lack on housing supply will drive the demand for land.
  – Most local administration are recovering planning programs
• Forecast: Sareb should perform better in the next years
  – For sure in the 15 years of its life…
    • Controlling interest rates dependence and structural costs.
    • Controlling corporate costs
Thanks for your attention