



Greece: Banks. Servicers and the NPE's problem

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Abstract

The purpose of this paper is to present all the determinants of non-performing exposures in Greece, as well as to present the cumulative solution of this problem through the strategic selection of securitizations. Non-performing exposures are a phenomenon that has a great influence on many sectors of a society, which makes its resolution an issue of major importance. Initially, there is a historical review of the causes of the birth of non-performing loans in Greece, which are located several years before the outbreak of crisis in the country. Then, there is the pick of non-performing loans during the crisis and the climate of pessimism that prevailed at that time, and then follows the presentation of the strategic choice of securitizations, as the most appropriate way to deal with them, judging by the result. Then, it presents a total record of all securitizations that have taken place in Greece, until December 2021. The main conclusions are, firstly, that securitizations gave the opportunity to Greek banks to take a deep breath and get rid of a very large volume of non-performing loans from their balance sheets, and secondly, the vital role of strategy nowadays in both the survival and growth of banks.

JEL classification: G20, G21, G28

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1. Greece through crisis

Greece, as many other countries around the world, has been suffered by the global financial crisis of the past decade, the impacts of which were various and catastrophic, while the most typical example of all being the increase of non-performing loans (NPLs) and non-performing exposures (NPEs). In Greece, specifically, NPEs were a problem of major importance for domestic banks of the country for several years. The causes of NPEs, however, did not appear during the global financial crisis in 2008, nor during the onset of the crisis in Europe. The causes were placed several decades ago, because of the continuous misuse of loans by both debtors and banks.

The phenomenon of accumulated NPEs in the last fifteen years was a global trend, as most countries in Europe and around the world, faced the same problem. The difference with Greece was the magnitude of the crisis that countries were experiencing and how much it

affected the banking system. Greece, on one hand, was at the mercy of Troika -an institution that includes International Monetary Fund (IMF), European Commission (EC) and European Central Bank (ECB)- unable to find domestic economic resources to deal with the debts and short-term liabilities, and on the other hand, banks were also experiencing a difficult and unprecedented situation, not being able to support the economy. The aforementioned came as a consequence of successive wrong strategic choices of both governments and banks.

Therefore, government lending came from Troika, which was the most expensive lending a country could ask for, but at that time it seemed to be the only solution. As for domestic banks, equity capital came from recapitalizations. The result was the signing of three bailout programs for the country (2010,2012,2015 – €312 bn in total) as well as an equal number of recapitalizations for banks (2012,2014,2015 - €40 bn in total), during which Greece came closer than ever to exit the eurozone currency, more than once. Furthermore, at that period the harsh economic measures imposed by Troika, caused some extraordinary reactions, such as: pessimism that prevailed from citizens, depositors were rushing to ATMs to withdraw their cash, households and businesses stopped paying their loans, unemployment was rising to unprecedented levels and educated young Greeks were increasingly leaving Greece to study and work abroad (Brain drain). Greece was facing both a financial and a humanitarian crisis.

The result was the gradual increase of NPEs, which first appeared in 2008, and from then on had a slow upward trend until 2012, while until 2016 they continued to rise, but with huge steps this time, reaching numbers that governments and bank administrators could not have predicted even in worst case scenarios. Specifically, at the end of 2016, the amount of NPEs skyrocketed, exceeding the amount of €100 bn, while their corresponding percentage of loans in circulation at that time in the country was almost 50%. Almost one of two loans in Greece were in default. In fact, from 2016 onwards, the contraction of the banking system is reflected in the fact that the country's systemic banks now amount to only 4, while a few years ago, in the beginning of the 2010s, the number of banks operating in the country reached 69.

From 2017 onwards, however, a light began to appear at the end of the tunnel for Greek banks, as some effective strategic banks' choices, allowed them to look to the future with greater optimism. The first step was some changes in legislation, both by the Greek government and European institutions, which concerned the way in which banks could negotiate their NPE portfolios, which were the biggest obstacle for their return to profitability. Then, the recovery of depositors' confidence, who started returning their deposits to banks, also was a significant factor. However, another reason of banks' recovery, and one of the most important, with the assistance of legislation, was the strategic choice of securitizations.

Subsequently, legislation became even more favorable for banks, as it encouraged the entry of famous European loan servicing firms into the market of NPEs. These were companies with years of experience and great specialization in dealing with the significant problem of NPEs. The biggest change in legislation, however, and one of the main reasons for Greek banks' recovery, was the release of securitizations, which from that point became the number one strategic choice for banks, significantly setting aside all the other proposed strategic options they had. Proof of the significance is the fact that this strategy is still in use nowadays.

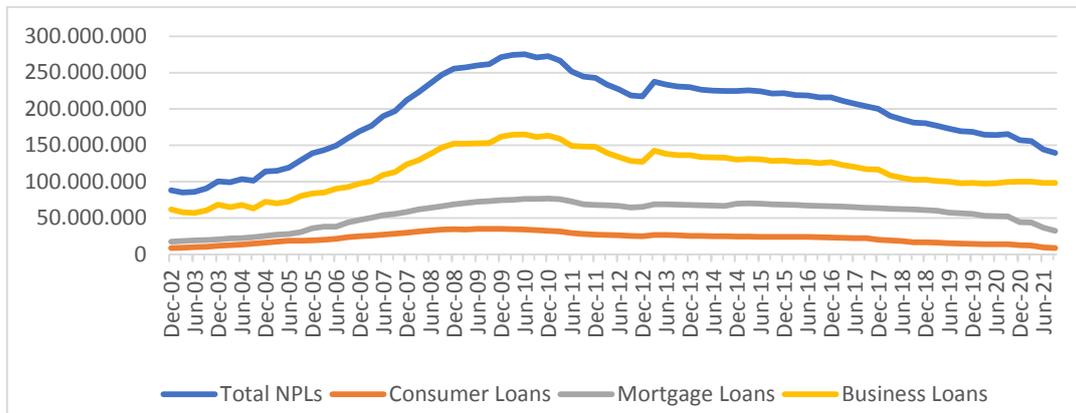
From 2017 onwards, the duo of securitizations and servicers undertake to complete the difficult task of freeing banks from their NPEs. Since then, banks, government and servicers have reduced the percentage of NPEs on their balance sheets to 15%, or €21 bn, while just five years ago, this amount exceeded €100 bn. The goal of all parties is at the end of 2022 the

percentage of NPEs for each bank to be lower than 10%, a fact that will allow them to return to growth after almost a whole decade.

2. NPEs in Greece

At the beginning of the 2000s, Greece was characterized by growth, a fact that was also reflected in lending by banks at that time (Figure 1), driven by the optimism that was widespread during this period among citizens. At that period, competition between banks was very high, while they were competing for the largest market share. The consequence was a huge increase of lending by banks to their customers. More specifically, through lending, households increased their demand and consumption at the same time, and in combination with high growth rates, the result was an increase in corporate lending. (Anastasiou, D., Bragoudakis, Z. & Malandrakis, I., 2019)

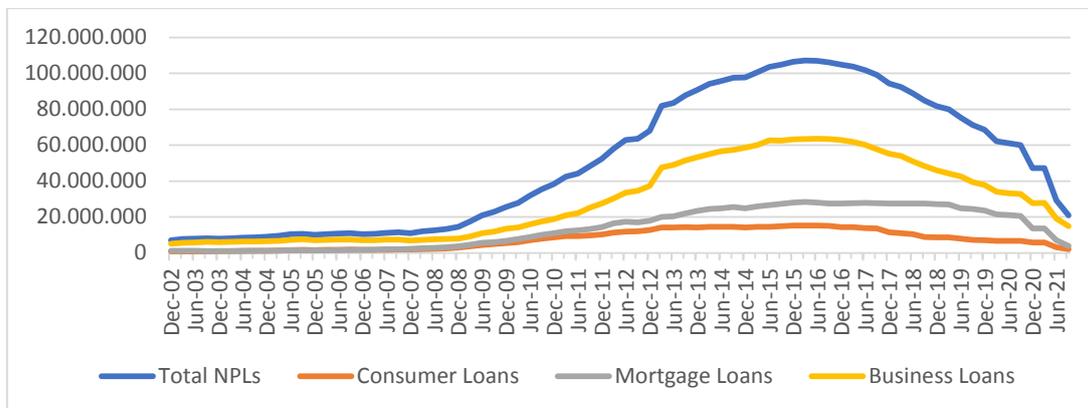
Figure 1: Loan amounts per category (2002-2021, in thousand euros)



Source: www.bankofgreece.gr/statistika/ekseliksh-daneiwn-kai-kathysterhsewn

This credit expansion, however, did not have the expected effect, as the extent it had taken resulted the appearance of a huge amount of NPEs. NPEs showed a relatively stable course until the end of 2007, without any significant fluctuation. (Figure 2) However, 2008, the year of the beginning of global financial crisis, NPEs began to grow rapidly in Greece. It is worth noting that in the hierarchy of NPEs, the lion's share was held by business loans, then consumer loans and finally mortgage loans, in terms of the amount of overdue debts. (Bank of Greece, 2021)

Figure 2: NPE amounts per category (2002-2021, in thousand euros)



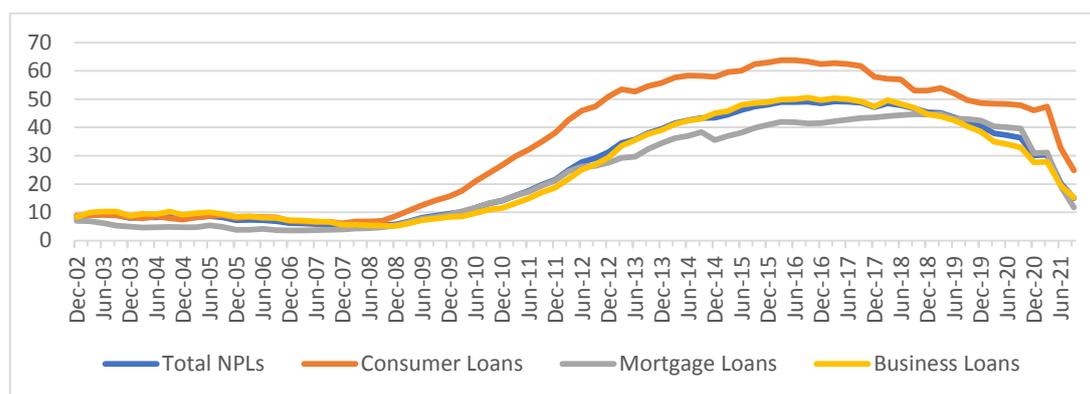
Source: www.bankofgreece.gr/statistika/ekseliksh-daneiwn-kai-kathysterhsewn

More specifically, in the second half of 2008, NPEs totaled €14.622 bn and accounted for 5.7% of total loans. At the end of 2009, NPEs were estimated at €25.633 bn and at 9.5% of

total loans, while in December 2010 the amount was €38.411 bn, exceeding 10% for the first time, and more specifically reaching 14.1%. Beyond that, NPEs continued to grow at a frantic pace over the next three years, reaching €52.312 bn at the end of 2011, €67.989 bn at the end of 2012 and €90.866 bn at the end of 2013. Percentages on total loans were 21.5%, 31.3% and 39.5% for years 2011, 2012 and 2013 respectively.

This upward trend was not going to be short-term, as in 2014 the percentage of NPEs amounted to the impressive percentage 43.3% of the total loans granted, which largely explains the huge credit risk of banks. At the end of first quarter of 2015, the ratio of NPEs to total loans amounted to 43.5%, while the total amount of NPEs exceeded for the first time the limit of 100 billion euros. Then, banks were forced to raise their share capital through recapitalizations, with the assistance of the government and the Hellenic Financial Stability Fund (HFSF), to deal with the huge problem of NPEs, increasing their capital position. At the same time, there was a huge wave of denunciations from banks, which included about half of the NPEs. Many sectors were hit irreparably, and as a result they were unable to repay their loans, with the majority of them in trade, construction, heavy industry and textiles. At the second half of 2015, 60% of consumer loans, 38.1% of mortgage loans and 47.9% of business loans in the country were classified as NPEs. (Figure 3) (Bank of Greece, 2021)

Figure 3: Percentage of NPLs in Greece per category (2002-2021)



Source: www.bankofgreece.gr/statistika/ekseliksh-daneiwn-kai-kathysterhsewn

The result was the immediate reaction of four domestic systemic banks, which established NPE management departments. In addition, recession and pessimism that prevailed, limited banks' lending sources in finding quality solutions to increase their assets, thus keeping the percentage of NPEs in high levels, being in the third quarter of 2016 at the record rate of 49.1%, as total NPEs amounted to €106.026 bn, while total loans amounted to €215.899 bn. (Anastasiou D., Bragoudakis Z., & Malandrakis I., 2019)

Business loans in the second half of 2016 totaled €26.685 bn, of which €6.913 bn, or 49.7%, were overdue, while small and medium-sized enterprises had been damaged hardest. The year 2017 was promising for banks, as they managed to reduce their NPE portfolio by 10 billion euros, compared to the corresponding amount at the end of 2016. Specifically, NPEs at the end of 2017 were amounting to €4.432 bn. However, this reduction was not due to the repayment of debts by the borrowers, but due to the write-off and sale of some NPE portfolios.

NPEs continued their downward trend in 2018, amounting to €1.801 bn, because of the optimism among citizens that prevailed and the return of the country to growth. Also noteworthy is the fact that in just two years, banks had managed to reduce the level of NPEs by €3 bn, which had been described as particularly encouraging by markets. Arriving in December 2019, there was an even further decrease in NPEs, which amounted to 68.525

billion euros, in an aggregate amount of loans 168.707 billion euros, or otherwise at the rate of 40.6%. That is, from the record amount of March 2016 of 107.196 billion euros of NPEs, this amount reduced at the end of 2019 by 41 billion euros. Nevertheless, due to the shrinkage of banks' assets and the non-provision of new loans, the share of NPEs in total loans was remaining in high levels. (Bank of Greece, 2021)

At that time, servicers also made their appearance in the Greek market, constituting a systemic solution of the problem, through the transfer of NPEs from banks' balance sheets to theirs. Also, banking institutions were instructed to intensify their efforts to restructure viable businesses, cooperate between them to solve the problems faced by customers with debts to more than one bank, the correct treatment of strategic defaulters, etc. Except for the previous actions, we should note the securitization of loans by banks, which was to make a significant contribution to their efforts to rid themselves from NPEs. The year 2019 was characterized as a year of significant developments for the country's banking sector.

All these actions resulted in a further reduction of NPEs in both 2020 and 2021, while they amounted to 61.025 billion euros and at a percentage of 37.2% of total loans in June 2020, and in the corresponding month of 2021 they fell to 29.368 billion euros and at the percentage of 20.3% of total loans. Finally, according to the latest data, NPEs amounted to 20.923 billion euros (15% of loans in circulation) in September 2021, the lowest in 11 years. Securitizations had a vital impact in this reduction, as in less than 2 years, they reduced the amount of NPEs from 68 billion euros to 20 billion euros, i.e., more than 70% reduction.

3. Servicers in Greece

Greek banks have already made a large number of securitizations in various portfolios but mainly in non-performing loans, starting at 2017. As mentioned, the pessimism from citizens that prevailed at that time and the pressure from institutions somehow forced banks to the solution of securitizations to deal with the huge amount of their non-performing loans. The "Hercules" plan, which aims to reduce the percentage of NPEs in the country lower than 10% by the end of 2022, was a significant action taken by Greek government. Servicers also play a key role in that plan. These companies were established in the country for the sole purpose of managing non-performing portfolios. In total, there are 23 servicers licensed by the Bank of Greece (Table 1).

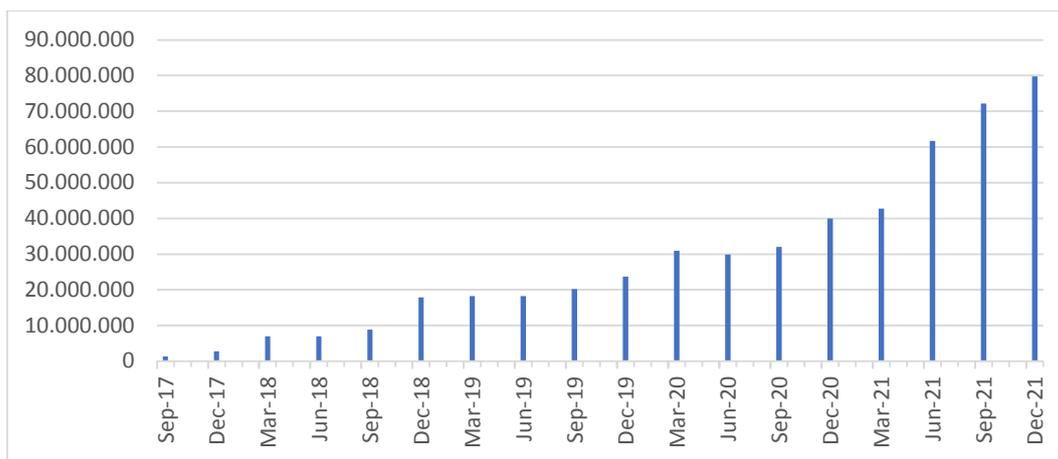
Table 1: Servicers in Greece

APS Greece	B2Kapital	Cepal	Cerved
DoValue	DV01	EOS Group	EuPraxis -FSI
FirstCapital	HipogesHellas	Hoist Hellas	Intrum
IPM	UCI	Melfin	MountStreet
NPA	Pepper	Pillarstone	Quant
Resolute Asset Management	SFS	TheaArtemis	

Source: eedadp.com/ melh /

In the last four years the role of servicers is considered crucial, as they buy more and more non-performing loan portfolios. Characteristic is the fact that in 2017 servicers managed portfolios with a nominal value of 2.7 billion euros, which in 2018 increased to 17.8 billion euros and in 2019 increased further to 23.6 billion euros. In 2020 continued their upward trend, climbing to 39.9 billion euros, reaching in the first quarter of 2021 the amount of 61.7 billion euros, while in the last quarter of the same year to a record amount of 79.7 billion euros. However, the trend of this curve is upward, which probably signals that for each new quarter there is going to be a new peak for non-performing loans managed by servicers. (Figure 4) (Bank of Greece)

Figure 4: Loans managed by Servicers in Greece (in thousand euros)



Source: [www.bankofgreece.gr/statistika/nomismatikh-kai-trapezikh-statistiki/etaireies-diaxeirishs-apaitsewn-apo-daneia-kai-pistwseis-\(edadp\)](http://www.bankofgreece.gr/statistika/nomismatikh-kai-trapezikh-statistiki/etaireies-diaxeirishs-apaitsewn-apo-daneia-kai-pistwseis-(edadp))

However, the role of servicers is not limited to the management of banks' non-performing loans. These companies aspire in the future to penetrate to the business sector, having the know-how of debt management, thus helping the Greek economy to stand on its own feet. In Greece there are opportunities for such activities, as in addition to banks there are several large companies to which large sums are owed by consumers. In fact, these are companies that are mainly active in sectors such as telecommunications and energy production, which do not have the necessary knowledge to manage situations like these.

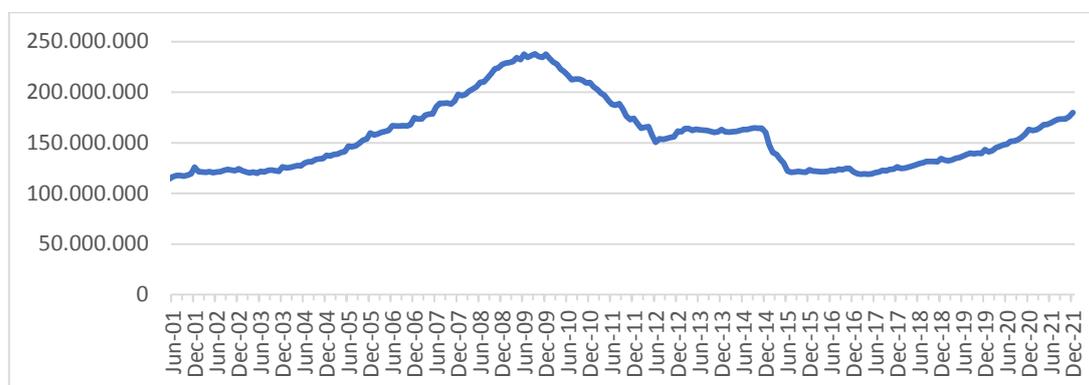
4. Banks in Greece

After the outbreak of the global financial crisis, the number of banks operating in the country has shrunk significantly, as from 69 in the beginning of 2010, there were only 4 systemic in 2021: Piraeus Bank, Alpha Bank, the National Bank of Greece and EFG Eurobank Ergasias. Of the foreign banks that operated throughout Greece in previous years, the only one left is HSBC, which however is expected to leave immediately. It is worth noting that 4 systemic banks hold 95% of assets in the Greek banking system, which makes them dominant and undisputed players in the country's banking sector (Hellenic Bank Association, 2022).

The expansion of NPEs and the general situation that prevailed in the country led to the contraction of the banking system, not only in the number of banks operating in the country, but also in the number of deposits in their balance sheets. Deposits of households and businesses were at a very satisfactory level in early 2010s, amounting to €16 billion in mid-2010. Then, there was a period of rapid reduction, the presence of which had been felt since 2011, reaching its peak in 2017, as in December of that year deposits in country's banks of households and businesses amounted to just 126 billion euros. From mid-2018 onwards,

however, deposits began to grow rapidly, reaching the amount of 173.1 billion euros in August 2021, while at the end of 2021 deposits amounted to 179.9 billion euros. (Figure 5) (Bank of Greece, 2021)

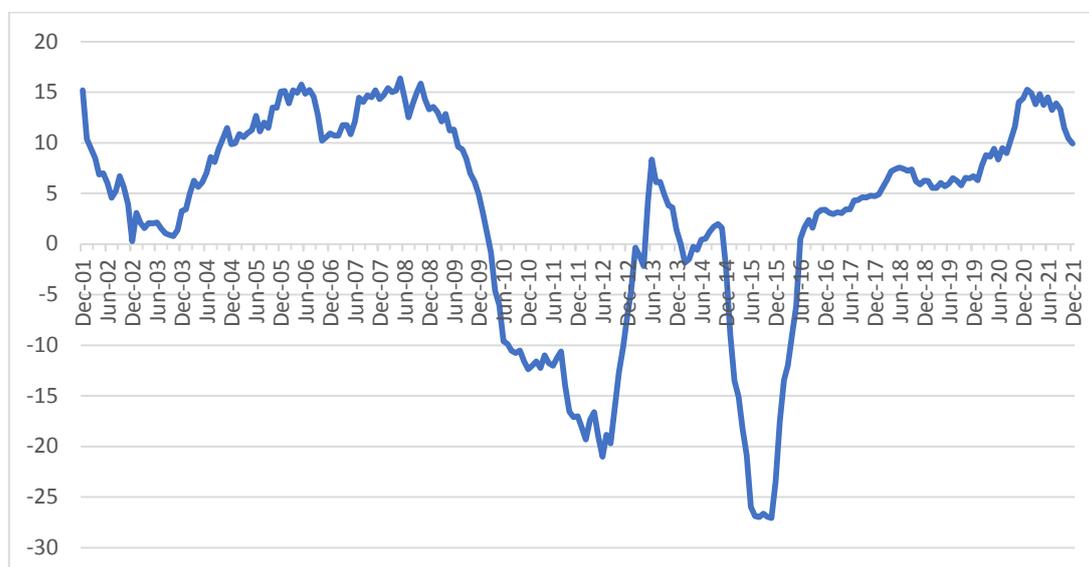
Figure 5: Deposits at Greek Banks (in thousand euros)



Source: www.bankofgreece.gr/statistika/nomismatikh-kai-trapezikh-statistiki/katatheseis-twn-pistwtikwn-idrymatwn

Noteworthy are the year-over-year (YOY) percentage changes of deposits in Greece, which are recorded monthly. Also, the most negative percentage changes in deposits are found in the periods of the three bailout programs, which testifies to the insecurity and uncertainty that prevailed in these periods, when depositors increasingly prefer to hold cash, having lost their trust in financial institutions. Nevertheless, this situation is now reverting, as from 2017 onwards it seems that banks have regained public confidence. (Figure 6) (Bank of Greece, 2022)

Figure 6: Deposits at Greek Banks (YOY Percentage change)



Source: www.bankofgreece.gr/statistika/nomismatikh-kai-trapezikh-statistiki/katatheseis-twn-pistwtikwn-idrymatwn

All four Greek systemic banks faced problems in the past years, which they tried to solve in various ways, always with support but also supervision from institutions. The solution that seems to be the most efficient of all those implemented, is the securitization strategy, which has dominated the Greek banking system's toolkit from 2018 onwards, with the number of total securitizations of country's portfolios being quite high. Thus, according to the above,

banks nowadays have the opportunity to return to profitability and growth, regaining the confidence of depositors and at the same time playing a key role in the country's effort to return to growth. Banks have already removed a huge volume of non-performing loans from their balance sheets, while in 2022 the percentage of NPEs is expected to reach single-digit levels. At the same time they have begun to regain lost ground in terms of their customers' deposits and trust.

5. Conclusion

To sum up, during the last decade, Greek economy suffered from the global financial crisis more than any other country in eurozone. Also, Greek banks faced severe difficulties in their efforts to return to profitability, due to pessimism from citizens and lack of trust from both citizens, Troika and global markets. As a result, a major problem made its appearance in Greek economy: Non Performing Exposures. Both citizens and government were unable to pay back their loans, due to bailout programs that prevailed in the country at that period. Especially at the early years of past decade, there was an unprecedented increase at the amount of NPEs in country's banking system, which restricted banks' lending options. That also forced banks to three recapitalization programs.

This unwanted situation started to change into positive environment at the mid-2010s. A series of effective strategic choices from both banks and government, and some favorable modifications in legislation, allowed banks to get rid of a huge amount of NPEs from their balance sheets. The most effective choice and the most favorable modification in legislation, simultaneously, was the wide use of securitizations from Greek banks. This strategic choice really did the trick for domestic banks, which in co-operation with government, through Hercules program, contributed the most to the huge reduction of NPEs. Furthermore, one more significant factor was the appearance of servicers in the country, which also played and continue to play a key role in banks' effort to deal with this problem.

Nowadays, things are much better than the past decade, since the amount of NPEs in banks' balance sheets are lower than ever, and there are some predictions that at the end of 2022, NPEs rate would be lower than 10% in total and for each bank separately, too. In addition, Greek economy has returned to growth. Greek banks have started to feed the economy with new granting of loans, while they can borrow money much easier from the global markets. Nevertheless, there are some estimations that at the near future things will become ever more favorable for the country, which seems to leave behind the catastrophic effects of the past decade

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