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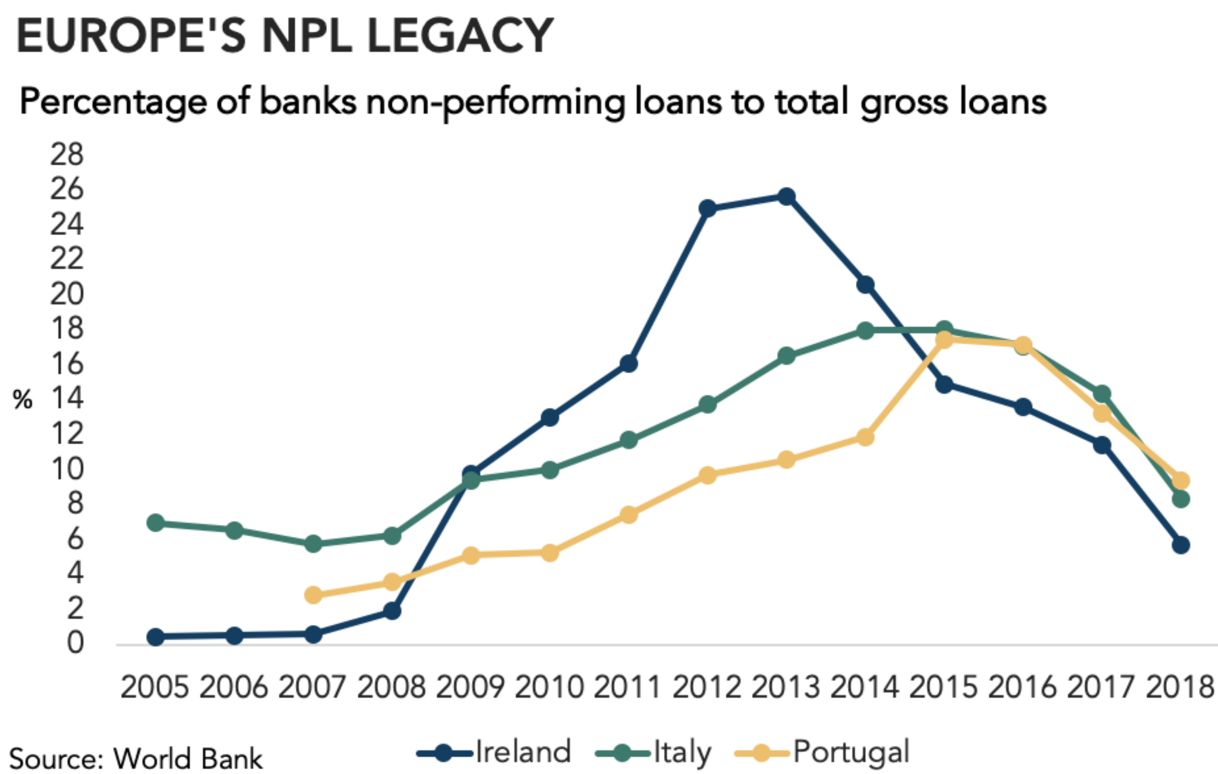
NPLs: Covid-19 creates new round of buying prospects

PEI Private Credit | September 22, 2020



The coronavirus crisis may not be as bountiful for Europe's NPL investors as the GFC, but will offer select opportunities.

Every crisis has its winners and losers and one asset class which came out on top after the global financial crisis in 2008 was European non-performing loans (NPLs). That crisis prompted the largest sale of loan books by the region's banks ever seen and which, even today, has still not reached its end as we enter a new economic crisis prompted by covid-19.

For specialist investors, the years since the GFC have offered unparalleled opportunities to buy up portfolios of bad loans and make them profitable. The chart above, based on three countries' experiences, shows how a peak was reached post-crisis. But with a new economic crisis now well underway due to coronavirus, the question for investors is will we see a new wave of NPLs entering the market?

The NPL market can be a slow-moving beast and it is worth looking back to the last crisis to understand how the response to covid-19 may create different conditions. One notable trend then was that NPLs did not begin to appear on the market immediately. The long delay was largely due to the poor position of banks' balance sheets, but this crisis is very different.

“This time, banks are in a pretty good place and while there will be losses, lending standards have been pretty good recently,” one source told us.

In fact, banks are still in the process of trying to dispose of their stock of NPLs from last time. The crisis has stalled some existing processes which will need to be resumed before new portfolios start to come to market.

Another factor likely to delay NPLs generated as a result of the coronavirus crisis is that it could take a long time before loans turn bad due to an unprecedented level of government support and intervention.

A new opportunity for NPL investors may be coming over the horizon. It may also require a fair amount of patience.