

NON-PERFORMING LOANS CONTINENTAL EUROPE FINANCE HOTELS &
LEISURE ITALY

Italian NPL investor looks for international partnerships

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Illimity has closed the acquisition of a portfolio of circa €600m loans



What Illimity has closed the transfer of the unlikely-to-pay portfolio Project Dawn from UniCredit

Why The specific credits were transferred in tranches over five months

What next Illimity is looking for JVs with international partners

Illimity Bank has closed its latest buy of a portfolio from UniCredit, and is now looking for international partnerships to expand its business, *React News* can reveal.

Launched in 2018 and listed on the Italian stock exchange in 2019, Illimity has in less than three years become one of the main investors in the distressed loan market in Italy. So far it has invested in about €7.7bn acquisitions of non-performing exposures, including €1.7bn of unlikely-to-pay (UTP) loans, a sector on which it has increasingly focused in 2020.

The dawn of the UTP market

The closing of the so-called Project Dawn shows the complexity of dealing with a UTP portfolio, Andrea Clamer, head of distressed credit investment and servicing division of Illimity told *React News*.

At the end of March, Illimity closed the transfer of the portfolio of UTPs and non-performing loans from UniCredit, for a total gross book value of €593m.

The portfolio consists of 67.5% UTPs with a gross book value (GBV) of €400.6m and 32.5% NPLs with a gross book value of €192.8m. About 27.3% of the portfolio is backed by loans in the real estate industry, with a GBV €161.8m, and 11.4% are in the construction industry with a GBV €67.4m.

The start of the process goes back to the summer of 2019, and it was slowed by the breaking of the Covid-19 pandemic. But even after the finalisation of an agreement between buyer and seller at end of October 2020, it took five months between the transfer of the first tranche and the last one, at the end of March 2021.



Andrea Clamer, head of distressed credit investment and servicing division of Illimity

It is a sign of the peculiar complexity of UTPs, which are loans not yet defaulted but unlikely to be fully repaid. Nearly half of all the non-performing exposures in Italian banks' balance sheets are now UTPs. They require a restructuring/turnaround approach and new finance to return the loans to performing.

"With UTPs you have to guarantee clients the financing to keep operating, to avoid halting the business activities," said Clamer.

"When you buy an NPL, there is just a credit: basically you move the credit from the seller bank to the buyer. With a UTP you are transferring the credit but also the relationship with the client. You have to take care of this relationship and to manage it," to allow the borrower to keep the financing flow and the business to survive.

After the agreement with UniCredit last October, the bank transferred the loans split in a series tranches based on their sub-classifications.

"The closing was done in a series of steps: every other week or every other two weeks a group of clients moved from UniCredit's book to Illimity," Clamer explained. The system

allowed the buyer to focus on the relationships with clients on a case-by-case basis, without having to address all at the same time.

Next wave of distress



Flats for sale in Italy

Despite a slowing of sales in the first quarter of the year due to the pandemic, Italy remained the most active market of distressed loans in Europe in 2020. Banca IFIS reported that €38bn of NPL sales and €9bn of UTP transactions were made.

The amount was higher than previously expected due to the acceleration of the activity in the fourth quarter, and the presence of local players such as Illimity.

“In Italy, bank NPE investors with a long- term view kept buying even when international funds stopped. The results show that we were right,” said Clamer.

The Italian pipeline of NPL sales for 2021 is estimated to be similar to that of 2020, around €35-€40bn. The impact of Covid-19 might bring new NPLs to about €80bn, Clamer estimates, presenting opportunities for additional sales in the coming years.

“[In Italy] the average amount of sales is about €30bn of NPLs a year. With circa €80bn of new NPLs to add due to the pandemic, we might have additional sales of €20bn a year of sales. For three or four years, we can expect sales of €50bn of NPLs a year,” he said.

The hotel opportunity



The hotel Minareto in Sicily. The UTP loan backing it was recently sold to Intrum

Clamer plans to catch the increasing opportunities with the help of international partners. “As a bank we don’t have access to endless capital. We are thinking to partner with international investors on specific assets classes: mainly special situations and real estate.”

The hospitality sector, particularly hit by the pandemic, is [attracting the interest of investors](#). “We see the asset class of hotel particularly under pressure,” said Clamer. Even small or medium hotels that Illimity is re-selling on auctions are quickly finding buyers, he added.

An ideal partnership would be a co-investment of a large international player to help Illimity to buy the credits and to take over the assets, which than could be managed or sold.

“We see interest for touristic areas, and Italian art cities.
Probably the push is more connected to tourism than to a
return to business travel.”