

**Rules.** Few companies that manage bad debts are registering with the new Bankitalia register

## Credit- recovery, reform risks being avoided

Morya Longo

They were operating in a dark jungle. Then, in 2010, the companies operating in the bad credit recovery sector (the so-called servicers) were reformed by the Bank of Italy, together with all the financial companies. But it is only now, with the implementation provisions, that the reform has become fully operative: if by February 2016 all the financial intermediaries (which disburse loans, money transfers but also credit recovery) want to continue working then they must register with the new registry envisaged in the new article 106 of the Single Banking Text. Registration is not a mere formality: those entering the register will in fact be subject to vigilance by the Bank of Italy and must meet stringent requirements similar to those required for normal banks.

So is everything alright? In theory yes. But in practice those who operate in this sector, such as Paolo Strocchi President of FBS

reform), is sounding the alarm: "In the new Register 106 few servicers are registering". His suspicion is that others will try to continue working outside the vigilance of Bankitalia, thanks to agreements with larger companies that outsource activities to unregistered third parties. Basically, a reform that should restore order and transparency to a fundamentally important sector such as credit recovery risks being circumnavigated by too many operators.

The subject is complicated but of vital importance in Italy: our banking system is in fact burdened with 200 billion euro of bad debts which become more than 350 if we include all the deteriorated credit quality loans. Since the banks are unable to recover this enormous sum alone, an increasing quantity of credit (with and without securitisation) recovery is handed over for management to external credit recovery companies. And since behind this mountain of deteriorated loans there are families and

Italian economy, it is good that these companies work well. That they be subject to vigilance. That they meet precise requirements and standards. For this reason the reform was launched: to restore order and transparency in what was becoming a genuine jungle. The point is that adapting to the new regulations and registering in the new registry of section 106 comes at a high price for many companies operating in this sector. It is time-consuming with procedural changes, it imposes internal and external controls and this is why there is resistance.

This explains why few servicers are registering with the new registry, probably in an attempt to continue working behind the mask of the larger companies (the so-called "master servicers") which contract the work. But in this way the purpose of the reform is frustrated in practice. It is true that there is still time until February to submit an application for registration in the new Registry 106 but it is also

months and months or preparatory work must be done. "We are convinced that few companies are doing it – commented Strocchi – To adapt to the new regulations we have worked hard for months. Anyone who has not yet started will not manage to do it by February 2016. We hope for a follow-up coherent with the clarity already expressed". The mechanism for avoiding registration in the new registry, but continuing to carry out the same business also in securitisation, could even be too simple: operating in a kind of "sub-contract" situation. Accepting the work from larger operators (the master servicers). If the master servicer is registered, and this is the suspicion, it can in fact pass on the business of recovery to unregistered companies. "The reform must not be avoided – said Strocchi - . The master servicer risks being simply a front to legitimise the companies that actually do the work and which are not registered with the new registry".

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companies in crisis, in other words an important slice of the post-recession

true that in order to do so

## DETERIORATED LOANS

### **199 billion**

#### **Bad debts in Italy**

According to the data of the last ABI (Italian Banking Association) report, bad debts amount to 199 billion euro in the balances of Italian banks. Bad debts are those at the worst level of deterioration in the mass of dubious quality loans which required greater devaluation in the balance

### **350 billion**

#### **Total deteriorated credit**

If we add all the other deteriorated loans (substandard, expired and refinanced) to the bad loans we arrive at a much greater figure: about 350 billion according to some estimates. This is the mass of deteriorated loans that weighs on the balances of the banks. This is why the management of these loans, even if outsourced, must be done well.