

The Use of Asset Management Companies in the Resolution of Banking Crises

Cross-Country Experience

Daniela Klingebiel

Asset management companies have been used to address the overhang of bad debt in a country's financial system — by expediting corporate restructuring or rapidly disposing of corporate assets. A study of seven cases suggests that such companies tend to be ineffective at corporate restructuring and are good at disposing of assets only when they're used to meet fairly narrow objectives in the presence of certain factors: an easily liquefiable asset (such as real estate), mostly professional management, political independence, adequate bankruptcy and foreclosure laws, skilled resources, appropriate funding, good information and management systems, and transparent operations and processes.



Summary findings

Asset management companies have been used to address the overhang of bad debt in the financial system. There are two main types of asset management company: those set up to expedite corporate restructuring and those established for rapid disposal of assets.

A review of seven asset management companies reveals a mixed record. In two of three cases, asset management companies for corporate restructuring did not achieve their narrow goal of expediting bank or corporate restructuring, suggesting that they are not good vehicles for expediting corporate restructuring.

Only a Swedish asset management company successfully managed its portfolio, acting sometimes as lead agent in restructuring — and helped by the fact that the assets acquired had mostly to do with real estate, not manufacturing, which is harder to restructure, and represented a small fraction of the banking system's assets, which made it easier for the company to remain independent of political pressures and to sell assets back to the private sector.

Asset management companies used to dispose of assets rapidly fared somewhat better. Two of four agencies (in Spain and the United States) achieved their objectives, suggesting that asset management companies can be used effectively for narrowly defined purposes of resolving insolvent and inviable financial institutions and selling off their assets. Achieving these objectives required an easily liquefiable asset — real estate — mostly professional management, political independence, adequate bankruptcy and foreclosure laws, appropriate funding, skilled resources, good information and management systems, and transparent operations and processes.

The other two agencies (in Mexico and the Philippines) were doomed from the start, as governments transferred to them politically motivated loans or fraudulent assets, which were difficult for a government agency susceptible to political pressure and lacking independence to resolve or sell off.

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I. Introduction

In recent decades, many countries have experienced banking problems requiring a major and expensive overhaul of their banking system. By one count, 112 episodes of systemic banking crises occurred in 93 countries since the late 1970s (Caprio, Klingebiel 1999). Bank restructuring often has to be accompanied by corporate debt restructuring as most of the NPLs of a banking system in trouble are usually loans to non-financial enterprises which are no longer able to service their debt. Countries can adopt either flow or stock approaches to resolving banking distress and the overhang of bad debt in the financial system.

As cross country evidence indicates, stock solutions tend to be necessary, where banking distress is systemic and often include the liquidation of unviable banks, disposal and management of impaired assets and the restructuring of viable banks. For the management and disposal of bad debt, governments have made extensive use of publicly owned asset management companies (AMCs) that either dispose of assets hived off from bank balance sheets or restructure corporate debt. AMCs have become very popular including in the recent East Asian financial crises (see Claessens, Djankov and Klingebiel, 1999). While establishing AMCs is now an often recommended resolution strategy to manage and dispose of impaired assets (for example Dziobek, Pazarbasioglu 1997), little is known about the effectiveness of these centralized agencies. The paper below attempts to close this gap and has two objectives: (i) to analyze on a conceptual basis the advantages and disadvantages of AMCs in managing and disposing of impaired assets; and (ii) to gauge the effectiveness of such institutions using cross country experience. It will only focus on this aspect of systemic bank restructuring and will not discuss pros and cons of different bank recapitalization strategies including the use of AMCs as part of that strategy.

Two main types of AMCs can be distinguished: AMCs set up to help and expedite corporate restructuring and AMCs established to dispose of assets acquired/transferred to the government during the crisis—rapid asset disposition vehicles. According to a survey of 26 banking crises (Caprio, Klingebiel 1997b), centralized AMC structures were set up in nine cases. Out of the nine, seven cases, where data was publicly available for a more thorough analysis, were selected. In three out of the seven cases (Finland, Ghana, Sweden), the government set up restructuring vehicles. In four cases (Mexico, the Philippines, Spain and the US) governments set up rapid asset disposition agencies.

The results of the analysis of the seven cases can be summarized as follows: Two out of three corporate restructuring AMCs did not achieve their narrow goals of expediting corporate restructuring. These experiences suggest that AMCs are rarely good tools to accelerate corporate restructuring. Only the Swedish AMC successfully managed its portfolio, acting in some instances as lead agent in the restructuring process. It was helped by some special circumstances, however: the assets acquired were mostly real estate related, not manufacturing that are harder to restructure, and were a small fraction of the banking system which made it easier for the AMC to maintain its independence from political pressures and to sell assets back to the private sector. Rapid asset disposition vehicles fared somewhat better with two out of four agencies, namely Spain and the US, achieving their objectives. The successful experiences suggest that AMCs can be effectively used, but only for the purpose of asset disposition including resolving insolvent and unviable financial institutions. But even achieving these objectives required many ingredients: a type of asset that is easily liquifiable—real estate,

mostly professional management, political independence, a skilled resource base, appropriate funding, adequate bankruptcy and foreclosure laws, good information and management systems, and transparency in operations and processes. In the Philippines and Mexico, the success of the AMCs was doomed from the start as governments transferred a large amount of loans politically motivated loans and/or fraudulent assets to the AMCs which are difficult to be resolved or to be sold off by a government agency. Both of these agencies did not succeed in achieving their narrow objective of asset disposition, thus delaying the realignment of asset prices.

The remainder of the paper is organized as follows. Section II examines alternative strategies for the handling of problem assets in banking crises used in stock solutions and compares the decentralized approach of asset management—non-performing assets are left with the individual bank to deal with—to the centralized approach—non-performing assets are transferred to a centrally managed asset management company—and describes the different types of asset management companies – rapid asset disposition vehicles and restructuring vehicles in greater details. Section III presents the analysis of seven country cases of asset management companies. Section V draws some conclusions.

II. Alternative Strategies for Handling Problem Assets in Banking Crises —The Centralized versus the Decentralized Approach—

While there is a growing literature on the do's and don'ts of banking crisis management literature,¹ empirical studies in this area remain sparse.² Bank restructuring seeks to achieve many—often conflicting—goals: preventing bank runs, avoiding a credit crunch, improving the efficiency of the financial intermediation process and attracting new equity into the banking industry to economize on claims on the public finances. As Dziobek (1998) notes the style of responses has also changed over time. It is therefore not surprising that there is no unique or optimal blueprint on how to manage systemic banking distress.

On a conceptual basis, countries can use either flow or stock approaches to resolving banking distress and the overhang of bad debt in the financial system. Whether a country should adopt a flow or a stock solution depends, among other things, on the degree of distress in the system and the extent of the official safety net. Flow solutions usually attempt to allow banks to strengthen their capital base over time through increased banking system profits—recapitalization on a flow basis—and do not explicitly address the stock of bad debt in a system.³ Cross country evidence suggests that flow solutions are only successful when banking distress is limited, i. e. non-systemic, and the official safety net is either limited or the supervisory authority is willing to intervene in those institutions whose capital base is further deteriorating. For example, in the early 1990s, US money center banks enjoyed substantial forbearance and successfully recapitalized on a flow basis.⁴ Contrary to that, stock solutions

¹ For example, Sheng 1996, Rojas-Suarez and Weisbrod 1996, Dziobek, Pazarbasioglu 1997, Goodhardt et al (1998); and Hawkins, Turner (1999) to name a just a few.

² Caprio and Klingebiel 1997a, Dziobek and Pazarbasioglu (1997).

³ Flow solutions also end up taxing either depositors and/or performing borrowers as banks would try to recapitalize from earnings, thus interest rate spreads would have to rise. Flow solutions are also inherently risky, as decapitalized banks have incentives to gamble for resurrection as was the case in the US savings and loan crisis.

⁴ Forbearance proved to be less successful in the US savings and loan crisis and Japan's banking problems that have continued for almost 10 years. Hoshi and Kashyap (1999).

are aimed at either restoring viable but insolvent or marginally solvent institutions to solvency or liquidating unviable institutions. Stock solutions tend to be necessary in cases where banking distress is systemic.

The proper management and disposition of impaired assets is one of the most critical and complex tasks of successful and speedy bank restructuring. Successful asset management policies can facilitate bank restructuring by accelerating the resolution of non-performing assets and can promote corporate restructuring by providing the right incentives for voluntary debt restructuring. There is an ongoing debate over the best model for asset management and recovery: should debt restructuring and workout be done by the banks themselves—the “decentralized model”—or should bad debt be transferred to a centralized publicly owned asset management company (Garcia 1997, Claessens 1998, IMF 1999) charged with resolving the overhang of impaired assets.

Empirical studies and/or cross country analysis on the usefulness and success of the decentralized versus the centralized approach in asset management have yet to be performed. This paper is intended as a first step in this direction as it will analyze the actual performance of AMCs given its stated goals, thus providing insight in whether or not AMCs may be a useful tool in the management of distressed assets. A companion paper looks at the experience of banking crisis where the responsibility for the workout of bad debt was mainly left with the banks (Dado, Klingebiel 2000).

Decentralized work-out of non-performing loans. In general, banks should be better placed to resolve NPLs than centralized AMCs as they have the loan files and some institutional knowledge of the borrower. Leaving the problem assets on banks’ balance sheets may also provide better incentives for banks to maximize the recovery value of bad debt and avoid future losses by improving loan approval and monitoring procedures. Leaving NPLs with banks also has the advantage that these banks can provide new loans in the context of debt restructuring. Successful decentralized debt workouts require, however, limited or no ownership links between banks and corporates, otherwise the same party would be both debtor and creditor, adequately capitalized banks and proper incentives for banks and borrowers. For example, the very slow speed of restructuring in Japan is in part due to the extensive ownership links among banks, other financial intermediaries, and corporations (IMF, 1999). Moreover, successful debt workout by banks requires that financial institutions have sufficient skills and resources to deal with their problem loans.

A decentralized bad debt work-out can be accomplished by establishing an internal work-out unit, or “bad banks”—separately capitalized—which are subsidiaries of banks. Sole objectives of these units/or bad banks is to focus attention on the work-out of the assets in a separate unit of the financial institution and maximize the recovery rate through active restructuring reducing drains on managerial capacity and improving overall incentives. A clean break can also help rebuild confidence in failed banks.

But there are also considerable risks associated with private AMCs that are spun off from individual banks. They can be used for “window-dressing” if assets are transferred at book value or above market value, i. e. not all losses are not taken at the bank level but some are

effectively transferred to another entity.⁵ Even if regulations are in place that require financial institutions to transfer their assets at market value, the supervisory authority needs to have the powers and the incentives to enforce such rules. Permitting banks to establish separately capitalized workout units or bad banks, therefore needs to be supported by a well-functioning regulatory framework, appropriate disclosure and accounting regulations with strong monitoring and enforcement by the supervisory agency and the market and third party reviews.

The centralized approach. The centralized asset recovery approach permits a consolidation of skills and resources—centralization of work-out skills and information technology—in debt restructuring within one agency and may thus be more efficient in recovering maximum possible value. A centralization can also help with the securitization of assets as it has a larger pool of assets. It centralizes the ownership of collateral, thus providing potentially more leverage over debtors and more effective management. Moreover, distressed loans are removed clearly, quickly and completely from banks allowing them in turn to focus on their day-to-day activities.⁶ Centralized agencies may also have the advantage of breaking links between banks and corporates and may thus be better able to collect on connected loans. Other arguments that are sometimes advanced in favor of a single entity include: improved prospects for orderly sectoral restructuring in the real economy,⁷ application of uniform workout practices, and easier government monitoring and supervision of workout practices. Finally, a centralized agency can be given special legal powers to expedite loan recovery and bank restructuring.⁸

A centralized workout unit may, however, also face problems related to its size and ownership structure. If the agency carries a large portion of banking system assets, it may be difficult for the government to insulate such an entity from political pressure especially in cases where the government is also charged with the restructuring of the assets and where a large portion of banking system assets has been transferred. Moreover, a transfer of loans can break the links between banks and corporations, links that may have positive value given banks' privileged access to corporate information.⁹ If AMC assets are not actively managed, the existence of a public AMC could lead to a general weakening of credit discipline in the financial system and lead to a further deterioration of asset values.

⁵ For example, if the bank is not subject to consolidated supervision, it can transfer the problem assets at book value and "hide" the losses as the AMC's balance sheet is not consolidated with that of the bank. Or even if the accounts are consolidated, they may be obscured. For example, the bank may take a minority position (to avoid consolidation at the bank level) and may ask connected companies to put up the rest of the equity.

⁶ Nevertheless, it is also argued that a reasonable amount of small-sized problem loans should remain within the bank's ordinary organization, even if the bulk of bad assets are transferred to a separate AMC. Apart from the argument of maintaining a level playing field among the remaining banks, leaving some non-performing assets in the banks will preserve their capability to work out loans that do not require special expertise. Also the transaction cost incurred by transferring small assets may outweigh any potential gains. See for more detail: Ingves/Lind (1996).

⁷ The idea here is to use the AMC as a tool for industrial policy. This may, however, be tricky for two reasons: (i) it is not necessarily obvious that the government has better information than the private sector about overcapacity and future growth areas; and (ii) involving government agencies provides scope for political interference.

⁸ Special powers, however, may not compensate for a weak judicial system and thus may prove less useful if they have to be enforced by the judicial system.

⁹ However, the value of such information depends on the viability of the corporates they have been lending to.

Countries have employed variants of the above techniques to deal with asset and debt recovery. For either solution—centralized or decentralized management of assets—, a legal framework that facilitates the workout will be a key element in influencing the final costs of bank restructuring (Waxman 1998). A good bargaining position for the holder of the asset and power to act are essential factors for the management of non-performing loans. Well functioning legal procedures and good access to courts are therefore crucial. Equally important are laws that facilitate actions by the banks or AMCs to exercise claims on assets and to recover the proceeds of sales of such assets if debt is not serviced. Moreover, for asset management companies to maximize returns, it is of particular importance that they have access to a clean title and do not require the borrower's consent to the sale of the assets.

Box 1: Advantages and disadvantages of a centralized public AMC

Advantages

- Economies of scale—i. e. consolidation of scarce work out skills and resources within one agency.
- Can help with the securitization of assets as it has a larger pool of assets.
- Centralizes ownership of collateral, thus providing (potentially) more leverage over debtors and more effective management.
- Breaks links between banks and corporates and thus could potentially improve the collectibility of loans.
- Allows banks to focus on core business.
- Improves prospects for orderly sectoral restructuring of economy.
- Allows the application of uniform workout practices.
- Can be given special powers to expedite loan recovery and bank restructuring.

Disadvantages

- Banks have informational advantages over AMCs as they have collected information on their borrowers.
- Leaving loans in banks may provide better incentives for recovery—and for avoiding future losses by improving loan approval and monitoring procedures.
- Banks can provide additional financing which may be necessary in the restructuring process.
- If assets transferred to the AMCs are not actively managed, the existence of an AMC may lead to a general deterioration of payment discipline and further deterioration of asset values.
- It may be difficult to insulate a public agency against political pressure especially if it carries large portion of banking system assets.

The Different Types of Asset Management Companies

There are mainly two types of centralized asset management companies: (i) asset disposition vehicles including liquidation vehicles and (ii) longer term restructuring vehicles. Whereas the typical objective of asset disposition and liquidation agencies is to sell the assets promptly, through bulk sales or securitizations—for asset disposition and liquidation agencies)—and via purchase & assumption transactions—for liquidation agencies—restructuring agencies tend to have different sets of objectives.

Asset disposition agencies. Centralized asset sale agencies are set up to dispose of particular classes of assets that by nature tend to be more easily liquifiable—real estate assets, commercial real estate loans, secured loans that can be either easily sold off or securitized in case of a deep

capital market—and that were transferred to the AMC during a bank restructuring and/or recapitalization exercise. To maintain value, assets need to be managed. Even good loans tend to lose value when they are taken from the originating bank unless the AMC monitors them actively.¹⁰ Otherwise even good borrowers may fail to service their loans. The management of the assets can either be performed by the AMC itself, or can be outsourced to the private sector or by the originating bank if it is still in operation. In that case, a loss sharing arrangement with the AMC could provide incentives for the bank to monitor/manage the assets properly.¹¹ Liquidation agencies are set up to resolve failed financial institutions including selling of their assets through P&As, insured deposit transfers, as well as deposit payoff and sale of the performing or non-performing assets that cannot be sold in P&A transactions.

Restructuring agencies. Restructuring agencies are usually set up on a longer term basis and are aimed at restructuring and liquidating NPLs of non-viable borrowers prior to their sale. Typically, as a first step in the restructuring process, the assets transferred to the AMC are grouped either into viable claims that need to be restructured or into non-viable claims for which borrowers will be forced into bankruptcy.¹² The overall objective of the AMC, if it is pursuing a commercial objective, usually is to make the assets financially viable and thus attractive for a buyer. The restructuring of viable assets can include—in case of an industrial company—selling off non-core assets and improving the overall efficiency of operations by reorganizing and reducing staff, cutting other costs, restructuring product lines, etc. In case of commercial real estate and residential homes, measures to increase the attractiveness of the properties can include renovation of the properties to adapt them to current market demand or reducing the vacancy ratio, which is a crucial factor in improving the cash-flow. As restructuring often requires new lending, the AMC needs to have the capacity to lend.¹³ After the restructuring process is completed, assets are sold to investors in various ways.

Ownership Structure. Large privately held centralized AMCs are rare. If a substantial amount of bad loans and assets were transferred to an AMC, it is usually difficult to find private investors willing to assume the ownership of such an AMC without requiring far reaching state guarantees covering the future value of the asset portfolio. In that case, the government may be in a more favorable position if it owns the AMC rather than providing such guarantees since it might then benefit from any upward price movement of AMC assets. Moreover, under such a scenario, it may be difficult to structure the guarantee in such a way that it preserves the private owners' incentives to sell the assets at best prices. Public ownership could also be warranted if the value of impaired assets could be destroyed through “fire sale” liquidations. In that instance, the gradual sale by a specialized public agency may be better able to preserve the asset value.

The timing of assets sales. The warehousing of assets in the hopes of obtaining higher prices later may not prevent prices from tumbling since the future supply of assets will be discounted in current prices (Shleifer and Vishny 1992; Lang, Poulsen and Stulz 1995). This is especially

¹⁰ To fulfill this role, the AMC need to set up internal information and operations systems and procedures and need to track assets and catalogue them.

¹¹ In the Mexican case, the management of the assets was left with the originating banks. Despite loss-sharing agreements aimed at incentivizing the originating bank to continue to manage the assets properly, assets transferred to the AMCs were managed inadequately resulting in a further deterioration of asset values. This suggests that it may not be an easy undertaking to develop incentive compatible contracts to prevent this from happening.

¹² To increase transparency and depoliticize the process, these assessments should be done by third parties.

¹³ For more detail see: Ingves/Lind 1996.

the case for real estate assets, where fire sale losses need not imply an economic loss of value. At the same time, selling assets rapidly establishes floor prices that will promote a speedier recovery from the economic crisis. This may especially be so for public AMCs which typically have limited market insights.

Evaluating the success of centralized AMCs. The success of centralized AMCs can be assessed on two dimensions: (i) Did they achieve their narrow objectives for which they were set up; and (ii) at a broader level, did the banking system return to solvency, did banking problems not reappear, and did credit extension resume as banks are presumably cleaned up and the problem of recuperating bad loans is decoupled from the business of making fresh loans.¹⁴

Narrow objectives of AMCs. The success of rapid asset disposition and liquidation agencies will be measured by the speed of asset disposition. Here, an AMC is judged to be successful if assets, including banks, are disposed of rapidly that is within a five year timeframe. In the case of restructuring agencies it is more difficult to gauge whether they have indeed achieved their narrow objectives of accelerating corporate restructuring—because of the dearth of data and lack of the counterfactual. Thus, they will be considered successful if they sold off 50 percent of their assets within a five year time frame, indicating that the existence of a public AMC did not delay corporate restructuring.

Broader objectives. To assess whether AMCs accomplished their broader objectives of restoring the banking system back to health, two criteria are used: (i) did the financial system/or bank experience repeated financial distress; and (ii) did real credit to the private sector resume and was aggregate credit growth positive in real terms?

III. Cross Country Experience

Sample Selection and Information Sources. While setting up centralized asset management companies has become a popular component of banking distress resolution strategies in the recent East Asian financial crises—Indonesia, Malaysia and Korea all set up centralized AMC structures—they were a less frequently used tool in the past. According to a survey of 26 banking crises¹⁵, centralized AMC structures were only set up in nine cases. AMCs proved to be particularly popular in Africa as four out of the nine AMCs were launched in Africa.¹⁶ Out of these nine, seven cases, where sufficient data was publicly available, were selected for more detailed analysis. In four out of the seven cases (Mexico 1994; Philippines 1981-86, Spain 1977-85; US 1984-91); the governments set up rapid asset disposition vehicles, and in three cases (Finland 1991-94; Ghana 1982-89; Sweden 1991-94) restructuring agencies were established. As data sources, published reports, Annual Reports of AMCs if available or World Bank reports, or interviews with experts familiar with the individual cases were employed.

¹⁴ Some facilities also pursued the explicit objective to minimize fiscal costs. However, as we do not have information as to the counterfactual, we cannot evaluate whether AMCs have achieved that objective.

¹⁵ Caprio/Klingebiel 1996.

¹⁶ Benin, Cote d' Ivoire, Ghana and Senegal all set up centralized AMCs as part of their bank restructuring mechanisms. The other cases were Finland, Philippines, Spain, the US, and Uruguay.

Structure of Analysis. The analysis is structured as follows. In a first step, objectives and the main characteristics of the AMCs are briefly laid out including the amount of assets transferred relative to banking system assets, the sectoral breakdown of assets, criteria authorities used for the transfer of assets (if any) and the transfer price. Then, the attempt is made to gauge the success of those entities and analyze key factors for the success and/or impediments to the success of the AMC structure.

Except for the US, all banking systems in the sample suffered from systemic banking system crisis, i. e. the aggregate banking system's capital had been exhausted (see Annex for more details on crises). In all country cases, the financial sector restructuring mechanisms adopted by authorities included the setting up of a centralized AMC structure.

Figure 1 Assets transferred to AMCs

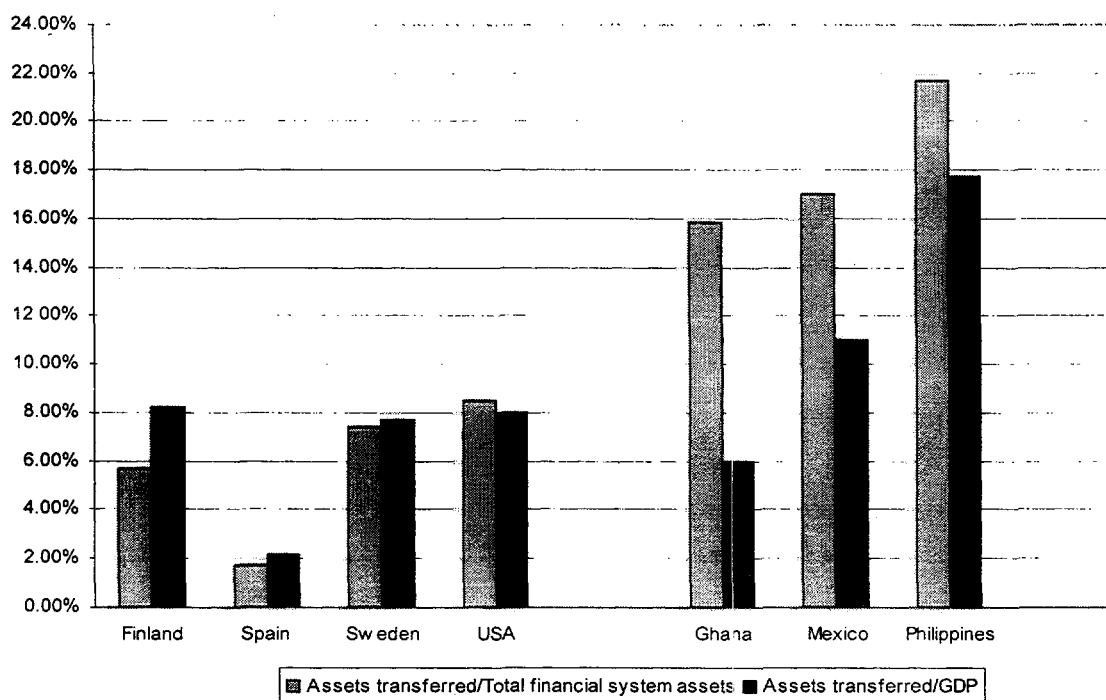
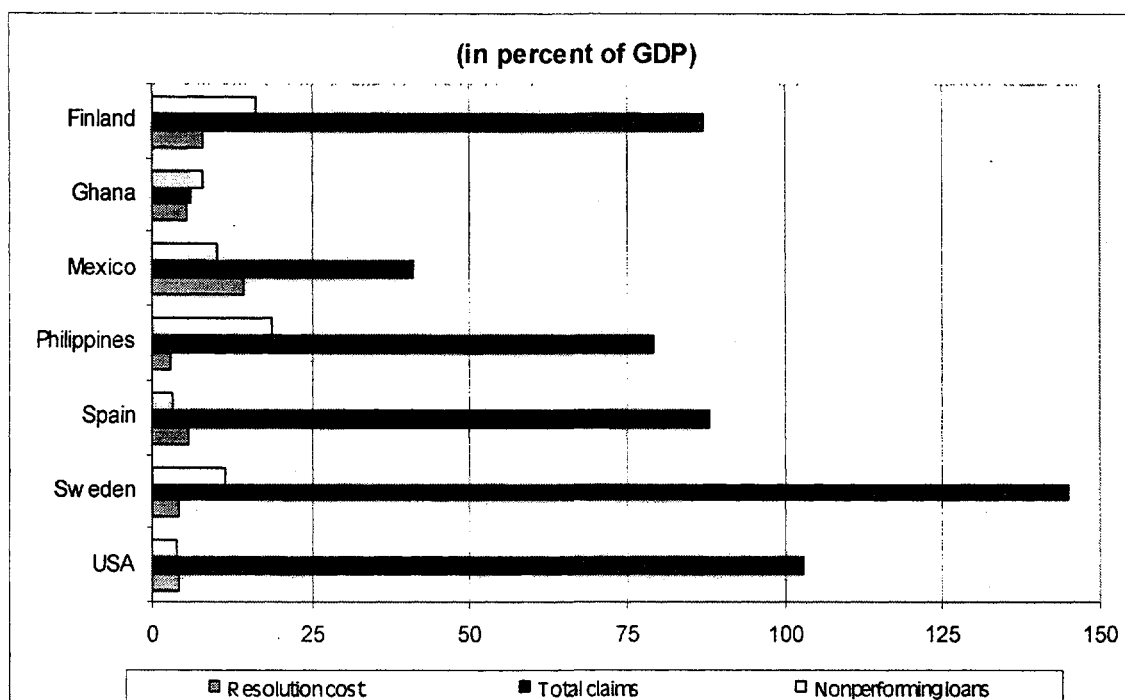


Figure 1 provides an overview of the share of banking system assets transferred to AMCs in the seven country case studies. While the comparability of the data across countries may be limited due to differences in accounting standards, the figure nevertheless illustrates that the share of financial system assets managed by the respective AMCs as a result of the asset transfers varied widely among the countries. Both as a share of assets to total system assets but also as a percentage of GDP, the Philippine AMC had to deal with the largest share of NPLs as assets transferred amounted to almost 22 percent of financial system assets and 18 percent of GDP. At the other end of the spectrum, Spain's AMCs had to deal with only 1.0 percent of financial system assets which was equivalent to 1.3 percent of GDP. With the exception of the US case, all assets transferred to the AMCs had been previously classified as non-performing.

Figure 2 provides preliminary information on the scope of the financial sector crisis in the seven countries by providing information on the peak level of non-performing loans in the financial system. Since the level of non-performing loans is a reflection of the performance of the real sector, this number can also be used as a rough proxy for the extent of corporate distress. Spain and the US were the only countries in the sample, where the extent of non-performing loans in the system remained limited, i. e. below ten percent as a share of gross loans. In the Philippines and Finland, official NPLs reached substantial proportion accounting for over or close to 20 percent of financial system assets.¹⁷ In Ghana, more than half of banking system loans were non-performing. In the Mexican case, it should be noted that official numbers recorded the level of NPLs at around 11 percent of banking system loans. However, non-performing assets transferred to Fobaproa amounted to 23 percent of financial system loans or 17 percent of financial system assets at end 1996.

Figure 2 Magnitude of Crisis and Resolution Costs



Source: Caprio and Klingebiel (1999) and IMF, International Financial Statistics.

1. Cross Country Experience with Rapid Asset Disposition Agencies¹⁸

Table 1 provides an overview of the main characteristics of the four country examples with rapid asset disposition vehicles. Two of the agencies—the Mexican and the Spanish AMCs—were housed in an existing public agency, the Deposit Guarantee Agency. Contrary to this, the Philippine and the US agencies were set up as stand alone agencies with a limited life

¹⁷ As the accounting conventions differ among the countries in the sample, these figures should be treated with caution. Among the countries, Spain, the US, Finland and Sweden have stricter classification regulation compared to Ghana, Mexico and the Philippines.

¹⁸ It should be noted that the analysis of the Mexican rapid asset disposition agency Fobaproa reflects available information until the end of 1998.

span. All four agencies pursued similar objectives. The main goal of Fobaproa (Mexico), the Asset Privatization Trust (APT), the Spanish Deposit Guarantee Fund and the US RTC was to dispose of the assets that were transferred to them as fast as possible while maximizing the recovery value of the assets. APT was solely focusing on the disposition of non-performing assets that had been transferred in a one off transaction. In contrast, Fobaproa was also involved in the clean up and recapitalization of the banks that were still in operation, as assets were purchased by Fobaproa at above fair market value, and continued to acquire assets through several rounds of loan purchases in exchange for government securities. By end 1997, the assets to be disposed of by Fobaproa amounted to 17 percent of banking system assets compared to 22 percent on ATP's books.¹⁹ The Spanish Guarantee Fund and the RTC operated as centralized liquidation agencies and as such they were responsible for resolving financial institutions including their liabilities that had been previously taken over or were intervened in—through different mechanisms. Moreover, the amount of bad debt that was effectively managed and sold by these entities was small relative to financial system assets; 1 percent in the case of the Spanish agency and 8.0 percent in the US case.

Evaluating Success. Fobaproa and ATP did not achieve their narrow objective of rapid asset disposition. By early 1999, four years after it had been established, Fobaproa only sold 0.5 percent of its assets and APT still has 50 percent of its original assets on its book twelve years after it started operations. In both cases, rapid asset sales were not hampered by negative or sluggish GDP growth (Table 2) as GDP growth was positive. Rather, the disposition efforts of these agencies were hampered by a variety of reasons (see Table 1) most important of which was the type of assets transferred (politically motivated and/or fraudulent loans). As government agencies with limited independence and susceptible to political pressure, both agencies were not equipped to resolving assets whose initial extension was based more on political connections than due diligence on the merits of the projects to be financed. Asset disposition was also hampered by a weak legal framework. For example, in Mexico, the government, at the time of asset transfer, had restricted financial institutions, including Fobaproa, from foreclosing on assets. Moreover, the rapid sale of assets was further hindered by the fact that the agency was insufficiently funded. As assets were transferred from banks at above market values, the disposition of these assets would have revealed the true losses of the banking system. Finally, the considerable amount of impaired assets under FOBAPROA's ownership impeded effective corporate restructuring in at least three ways: (i) it depressed market value of bank assets generally; (ii) continued government control of such a large share of total indebtedness encouraged continued politicization of asset restructuring process; and (iii) repeated non-performing asset sales limited banks' incentives to engage in corporate restructuring.

Contrary to that, the Spanish and the US agencies met their narrow objectives as both of them disposed of 50 percent of assets within the five year time period. The Spanish Guarantee Fund and the RTC, after some initial problems, were successful in developing fair, credible and transparent processes and mechanisms for the resolution and sale of financial institutions and managed to sell those institutions in a relatively short period of time minimizing disruptions for depositors and borrowers (Sheng 1996; GAO 1997). One key factor for the success of the Spanish Deposit Guarantee Fund was that the banks that were to be resolved were relatively small, which may have made it politically easier to deal with them. Moreover, the largest

¹⁹ Further details of the respective AMCs can be found in the Annex.

commercial banks in the system were sound enough to assist substantially in the resolution of the small banks. The RTC's success was helped by the fact that most of the assets to be disposed of were real estate loans/or assets or mortgage loans that could relatively easily be bundled and securitized or sold via bulk sales. Moreover, a deep and sophisticated capital market and a recovery in the real estate market also proved advantageous for the RTC as did an effective organizational and governance structure and skilled personnel. Despite succeeding in selling the 26 banks, the Spanish Guarantee fund proved to be less successful in disposing of the assets that had been carved out prior to the sale of the institutions, and part of the assets remain with the Fund even today. Despite an overall benign macro-environment and rising real estate prices, asset disposition was hampered by an inadequate legal framework and administrative obstacles (Table 2). For examples, the fund did not have the legal title or they were not registered for some of the real estate assets.

Both Fobaproa and APT were also not successful in achieving their broader objectives, i. e. helping to build a more robust banking system as the Mexican banking system remains weak and one of the two banks that were cleaned up in the Philippine case appears to be in financial distress again. In addition, Fobaproa's repeated loan purchases at Mexican banks coupled with debt relief for borrowers, led to a general deterioration of the payment discipline and asset prices. Moreover, loan growth did not recover and remained strongly negative in Mexico. In contrast, banking sector solvency problems did neither reoccur in Spain nor in the US.

Table 2 GDP and Real Credit Growth

	Year of AMC establishment	GDP growth (in percent)				Real credit growth (in percent)			
		One year prior	Year of set up	One year after	Two years after	One year prior	Year of set up	One year after	Two years after
Finland	1993	-3.55	-1.18	4.55	5.06	-8.95	-10.59	-10.63	-3.82
Ghana	1990	5.09	3.32	5.31	3.89	100.44	-16.73	-20.55	41.76
Mexico	1995	4.42	-6.17	5.18	6.71	27.93	-30.70	-36.70	19.56
Philippines	1987	3.42	4.31	6.75	6.21	-21.12	17.04	5.26	11.41
Spain *	1980	0.04	1.30	-0.18	1.57	-0.60	2.20	2.00	2.79
Sweden	1992	-1.66	-1.42	-2.22	3.34	-9.21	-2.38	-23.06	-6.23
USA	1989	3.82	3.36	1.23	-0.93	5.63	5.35	0.23	-2.10

Source: IMF, International Financial Statistics. * For Spain: Year when the Deposit Guarantee Fund was granted legal powers for bank restructuring.

Table 1 Rapid Asset Disposition Agencies

Rapid Asset Disposition	Objectives of Rapid Asset Disposition Agency	Asset Transfer	Outcome	Key Factors
<p>Mexico: FOBAPROA</p> <ul style="list-style-type: none"> Set up in 1995; continues to operate. No pre-established duration limit. Public ownership. Centralized entity. FOBAPROA set up as bank restructuring agency. 	<ul style="list-style-type: none"> Clean up and restructure banks. Sell off or recover assets as quickly as possible, through auction, securitization, or other market mechanisms. (Management and administration of assets until then sale was left with the banks.) 	<ul style="list-style-type: none"> Amounts of Assets Transferred: P142 billion (P119 billion net of reserves for loan losses) equivalent to 17% of banking system assets. Sectoral Breakdown of Assets: NPLs transferred included consumer, mortgage and corporate loans. Criteria for Asset Transfer: Non-transparent and repeated process led to perceptions that some of the banks received more favorable treatment than others. Asset Price: Transfer at book value as assets were not valued prior to transfer. 	<ul style="list-style-type: none"> Transfer of loans did not succeed in restoring the banking system to solvency as capital deficiency was underestimated and institutions remained weak even after repeated rounds of loan repurchases at above market price. Moreover, operational restructuring remained limited and bank management was left unchanged. As weaknesses in the banking sector remained, loan growth did not recover and remained strongly negative. By end 1998, FOBAPROA had sold only 0.5 % of transferred assets. The huge overhang of impaired assets under FOBAPROA's ownership impeded effective restructuring in at least three ways: (i) it depressed market value of bank assets generally; (ii) continued government control of such large share of total indebtedness encouraged continued politicization of asset restructuring process; and (iii) repeated non-performing asset sales limited banks' incentives to engage in corporate restructuring. 	<p>Favorable Factors:</p> <ul style="list-style-type: none"> Strong economic recovery. <p>Unfavorable Factors:</p> <ul style="list-style-type: none"> Type of asset transferred, i. e. politically connected loans assets that are difficult to handle for a government agency susceptible to political pressure. Lack of independence and weak governance as FOBAPROA was not separately managed but was under central bank management. Moreover, policy decisions were made by technical committee comprising the minister of finance, the central bank governor and the president of the financial supervisory body. Substantial deficiencies in bankruptcy and foreclosure code; moreover, at the time that assets were transferred to FOBAPROA, the government restricted financial institutions, including FOBAPROA, from foreclosing on assets. Insufficient funding of FOBAPROA. Sale of assets would have revealed the size of banking system losses.
<p>Philippines: Asset Privatization Trust (APT)</p> <ul style="list-style-type: none"> Set up in 1987, intended to be closed in 1991. Still in operation. Public ownership. Set up as centralized stand alone entity. 	<ul style="list-style-type: none"> Orderly and fast transfer of non-performing assets to the private sector. Administration of the assets pending disposal. In 1991, APT was also charged with divestiture of very large government corporations. 	<ul style="list-style-type: none"> Amounts of Assets Transferred: Assets of about P108 billion equivalent to 21.7 percent of banking system assets. Sectoral Breakdown of assets: Everything from mining ventures, ships, textile plants and food processing to luxury hotel resorts; 70 percent of value was held in 15 percent of assets; 75 percent of assets constituted financial claims for which foreclosure procedures had not been completed. Criteria for Asset Transfer: Size and nature of accounts (i. e. non-performing); potential for sale; and any special expertise required for disposition of the assets. Transfer Price: Book value. 	<ul style="list-style-type: none"> ATP did not reach its objective of "orderly and fast transfer" of assets to private sector as 40 to 50 percent of assets remain in APT's portfolio to date, including those of the largest account, i. e., National Construction Corporation, despite conducive macro-economic environment. One of the recapitalized banks again faced solvency problems in the late 1990s. Nevertheless, credit growth rebounded relatively strongly. 	<p>Favorable Factors:</p> <ul style="list-style-type: none"> Strong economic recovery. <p>Unfavorable Factors:</p> <ul style="list-style-type: none"> Type of asset transferred, i. e. politically connected loans and/or fraudulent assets that are difficult to handle for a government agency susceptible to political pressure. Rapid asset disposition was severely hampered by legal problems despite the fact that APT had temporary extra-judicial powers In addition, weak governance and insufficient funding. APT was neither privately managed nor an independent agency and budgetary pressures, i. e. avoidance to reveal losses, reduced APT's commitment towards rapid sale. While APT had to submit quarterly reports on performance and financial status to the President and Congress, it did not disclose any information on its activities and financial situation to the public and the process of asset sales remained non-transparent.

Rapid Asset Disposition	Objectives of Rapid Asset Disposition Agency	Asset Transfer	Outcome	Key Factors
<p>Spain:</p> <p>Deposit Guarantee Fund</p> <ul style="list-style-type: none"> Set up in 1977 and still in existence. Was given legal capacity in 1980 to assume bank ownership to initiate bank restructuring. Had no pre-established duration limit. Public ownership. No stand alone entity but part of entity set up to resolve failed banks. 	<ul style="list-style-type: none"> Restructure banks for prompt resale by carving out bad assets that new investors were unwilling to take on. Prompt sale of carved out assets with the aim of maximum recovery value. 	<ul style="list-style-type: none"> Amounts of Assets Transferred: Fund took over 26 banks with assets amounting to 1 percent of financial system assets. These banks were restructured and then sold off to new investors. In some instances, large amount of assets were taken off bank balance sheet and remained for rapid asset disposition in Guarantee Fund. Sectoral Breakdown of Assets: Real estate: 8.2 percent; other assets: 72.5 percent; shareholdings: 19.4 percent. Criteria for Asset Transfer: Assets that acquirers of banks were unwilling to take on. 	<ul style="list-style-type: none"> Successful in selling intervened banks in relatively short period of time upon acquisition. Banks were sold off on average within one year, indicating that Deposit Guarantee Fund managed to accelerate the bank restructuring process. Moreover, banks resumed lending in 1980, and credit to the private sector by banks grew in real terms. However, the Fund was much less successful in achieving its aim of "rapid disposal of bad assets" that had been carved out from banks' balance sheets. Fund was not involved in resolution of 20 small and medium size banks of the Rumasa groups. Due to the scope of the problems of the Rumasa group, the government decided to nationalize the banks and the 200 industrial firms belonging to the group. The government adopted a two pronged strategy: (i) take over control of companies and (ii) resale of the companies as soon as possible. 	<p>Favorable Factors:</p> <ul style="list-style-type: none"> Fund operated as independent public agency under private law with appropriate funding and had appropriate powers (could change management immediately, purchase assets, offer guarantees or counter-guarantees on behalf of restructured banks, grant long-term loans at subsidized rates or permit temporary regulatory forbearance) for resolving institutions. Banks to be resolved were small banks which made it "politically easier" to resolve and the Fund was not involved in resolution of political sensitive RUMASA group. The largest commercial banks in the system were sound enough to assist substantially in resolving the small banks albeit under considerable state pressure. Also, competition in the home market from foreign banks provided incentive for Spain's private banks to acquire recapitalized banks sometimes even assuming losses. In terms of disposition of non-performing assets, amount of those assets small (1 percent of banking system assets). Overall, benign macro-environment. <p>Unfavorable Factors:</p> <ul style="list-style-type: none"> The framework for foreclosures and seizures of collateral was deficient and impeded rapid sale of assets. Moreover Deposit Guarantee Fund encountered problems with transfer of titles. Lackluster demand for real estate assets.

Rapid Asset Disposition	Objectives of Rapid Asset Disposition Agency	Asset Transfer	Outcome	Key Factors
<p>USA: Resolution Trust Corporation</p> <ul style="list-style-type: none"> • Set up in 1989, RTC was to operate until 1996. It ended operations in 1995. • Public ownership. • No stand alone entity but part of entity set up to resolve failed banks. 	<ul style="list-style-type: none"> • Social as well as commercial: RTC was to maximize the net value proceeds from S&L crisis resolution, but also had a broader mandate of minimizing the impact on local real estate and financial markets, and of maximizing available and affordable housing for low to moderate income individuals. 	<ul style="list-style-type: none"> • Amounts of Assets Transferred: RTC resolved 747 thrifts with total assets of US\$ 465 billion. These assets accounted for roughly 23.2 percent of S&L's assets or 8 percent of total bank and thrift assets in 1989. Of these, RTC sold US\$ 153 billion through asset disposition not connected to the sale of the financial institution. • Sectoral Breakdown of Assets: RTC acquired performing and non-performing assets; sectoral breakdown of assets transferred: 42% mortgage loans; 7% real estate; 8% other loans; 35% cash & securities; 8% other assets. • Criteria for Asset Transfer: Insolvency of the financial institution as determined by the Central Bank. 	<ul style="list-style-type: none"> • Yes. RTC successful in resolving 747 thrifts and disposing of assets that were carved out prior to bank sale. • Overall, RTC recovered 87 cents to the dollar. 	<p>Favorable Factors:</p> <ul style="list-style-type: none"> • Amount of assets transferred were relatively small (8.5 percent of financial system assets) and a large part of those assets were performing. Moreover, it should also be noted that S&L problem affected only a fraction of the US financial system leaving sound institutions in the market as potential buyer of the assets. • The type of assets – as mostly performing real estate related assets and consumer loan assets were transferred – could be sold off through wholesale disposition mechanisms (bulk sales, securitization and auctions). • Deep and sophisticated capital markets. • Adequate governance structures; professional management and extensive use of private sector contractors for asset disposition. RTC relied on a detailed set of directives and guidelines to its staff and contractors that covered a wide range of operations, including asset management and disposition, contract policies, bidding procedures and marketing. While this reduced RTC's flexibility in handling individual cases, they minimized the possibility of fraud and made policy and cost evaluation more transparent and expedited resolution process. • Effective organizational structure including information management systems that can handle large amount of information and management of assets which allowed RTC to collect 31% of the total assets transferred and reduced by one third the amount of assets needed to be sold. <p>Unfavorable Factors:</p> <ul style="list-style-type: none"> • Sporadic funding of RTC (several pieces of legislation were required to approve funding) hampered speedy resolution of failed S&Ls and increased resolution costs. • Rapid asset disposition was hampered by inconsistent objectives of agency. In addition to cost minimization and expeditious disposition objective, the RTC was also supposed to structure and time its asset sales to minimize any impact on local real estate and financial markets.

2. Cross Country Experience with Restructuring Agencies

Arsenal in Finland, NPart in Ghana, and Securum in Sweden were restructuring agencies for non-performing assets of banks that were either still in operation and recapitalized through the purchase of loan program at above fair market value—Ghana—or of banks that needed to be cleaned up prior to their sale to new investors—Finland and Sweden—(see Table 3). The narrow objective of all three entities was to manage and liquidate non-performing assets and accelerate corporate restructuring

Evaluating Success. Securum, the Swedish asset management agency was successful in achieving its narrow objective of restructuring and/or selling off the assets in a relatively brief period of time and may have expedited restructuring in the broad real estate sector by acting in some cases as a lead agent enhancing creditor coordination (Bergren 1998). It closed its doors in 1997, five years after it had been established having sold off 98 percent of its assets. The following factors contributed to the success of Securum. Firstly, the government transferred mostly commercial real estate assets which may be easier to restructure as they may involve politically less sensitive issues—layoff of factory workers. Secondly, the assets that were transferred to Securum were mostly large and complicated assets for which it could be argued that Securum may have had a comparative advantage of resolving them. Thirdly, the government only transferred a limited amount of total banking system assets. Securum total assets amounted to 8 percent of total banking system assets. In addition, Securum had professional management, enjoyed political independence and was provided with appropriate funding. Finally, the economy and the real estate market recovered over that period (Table 2).

Arsenal had disposed of more than 50 percent of assets after five years in operation, and thus did not appear to have delayed corporate restructuring. Yet, it is difficult to gauge whether the agency was an important agent in corporate restructuring and indeed accelerated the process. Factors that worked in Arsenal's favor were the following. Firstly, Arsenal only had to resolve a relatively small amount of banking system assets as assets transferred amounted to 5.2% of banking system assets. Secondly, a large amount of the assets transferred were loans to real estate or loans secured by real estate. Thirdly, Arsenal was provided with appropriate funding, had professional management and a skilled human resource base. And finally asset resolution and disposition may have been helped by a strong economic recovery as the economy expanded at 4 and 5.1 percent in 1994 and 95. On the negative side, because Arsenal had received NPLs regardless of type and size of asset, it may have been more difficult for the agency to use wholesale divestiture techniques and also required it to build up expertise in different areas.

Contrary to Securum and Arsenal, N-PART did not achieve its narrow objective of performing a substantial role in the restructuring of the corporate sector and expediting the restructuring process. In the end, the agency engaged mostly in cosmetic financial restructuring extending maturity, and lowering interest rates and functioned as a collection agency. Factors that contributed to that outcome were the fact that the agency lacked political independence and professional management at the highest level of the institution. In addition, N-Part not only had to resolve a large share of outstanding banking system assets but also more than 50 percent of assets transferred were loans to state-owned enterprises, assets that are typically difficult to restructure for a government

agency lacking independence. Importantly, the work of N-Part was hampered by a weak legal framework. The government attempted to mitigate the implications of a weak legal framework for N-Part by granting it legal super-powers. Yet, this strategy proved largely ineffective because the courts were debtor friendly and N-Part needed the approval of the borrower before it could proceed with the liquidation process.

The track record of all three institutions regarding achieving their broader goal is mixed, at best. Sweden and Finland did not record any renewed banking system distress but real credit to the private sector contracted significantly in both countries in the years that followed the establishment of the AMCs, indicating that the restructuring of banks was not yet complete (Table 2). While banks' lending to the private sector increased significantly in Ghana, state-owned commercial banks, that had been cleaned up through the loan purchase program, again appeared to experience problems in the mid 1990s.

Table 3: Restructuring Agencies

Restructuring	Objectives of Restructuring Agency	Asset Transfer	Outcome	Key Factors
<p>Finland: Arsenal:</p> <ul style="list-style-type: none"> Began activities in 1993 and is still in operation. Expected to close in year 2000. Set up to absorb non-performing assets. Public ownership. Stand-alone entity. 	<ul style="list-style-type: none"> Established as a clean up mechanism for the Savings Bank and Skopbank. Manage, restructure and liquidate NPLs and other holdings, in an orderly manner and at minimum cost. 	<ul style="list-style-type: none"> Amounts of Assets Transferred: Assets transferred had a book value of FIM 42.9 billion. Sectoral Breakdown of Assets: Only non-performing loans were transferred; real estate assets amounted to 34%; client receivables 41%; assets under management and other assets 25.3 percent. Criteria for Asset Transfer: All non-performing assets were transferred to Arsenal regardless of type and size of loans. Transfer Price: Book value. 	<ul style="list-style-type: none"> At end 1997, Arsenal still managed 46.5 percent of the assets that were transferred to it. By end 1997, Arsenal had disposed of 78 percent of the real estate assets it had taken over. Unclear to what extent Arsenal accelerated corporate restructuring and how active Arsenal was in corporate restructuring. Real lending to the private sector remained strongly negative in real terms in the years after the establishment of Arsenal. 	<p>Favorable factors:</p> <ul style="list-style-type: none"> Large amount of real assets transferred, including client receivables made it easier to restructure and/or dispose as they are less "politically" sensitive issues involved (real estate considered more to be cyclical industry) Appropriate funding allowed Arsenal to mark assets to market value after transfer. Arsenal's professional management and adequate skilled resources. Benign macro-environment. In 1994-95, real GDP rebounded strongly and the economy expanded at 4-5 percent. <p>Unfavorable factors:</p> <ul style="list-style-type: none"> Transfer of all types of NPLs regardless of type and size of assets may have made it more difficult to use wholesale divestiture techniques and also required Arsenal to build up expertise in different areas.
<p>Ghana: NPART.</p> <ul style="list-style-type: none"> Initiated operations in 1990 and closed in 1997, 2 years later than stipulated. Wholly owned government agency. Set up as centralized stand-alone agency. 	<ul style="list-style-type: none"> Restructure and recapitalize publicly owned government banks. Restructure companies and expedite corporate restructuring. Maximize recovery value to reduce fiscal burden on the Government. 	<ul style="list-style-type: none"> Amounts of Assets Transferred: About 13,000 accounts were transferred to NPART. Sectoral Breakdown of Assets: Corporate loans from state and private sector companies across industrial and service sectors; most loans were collateralized by plant, equipment and machinery. Criteria for Asset Transfer: Non-performing assets otherwise process of asset transfer non-transparent. Transfer Price: Book value of assets excluding accrued interest. 	<ul style="list-style-type: none"> NPART failed to play a substantial role in expediting or enabling corporate restructuring. NPART functioned effectively as a collection agency and restructured its loan portfolio via extension of maturities or modifications to terms and conditions. While government owned banks were cleaned up through transfer of assets, and banks were operationally restructured, state-owned commercial banks in Ghana appeared to be in financial difficulties again in the late 1990s. At end 1997, government state-owned commercial banks had NPLs exceeding 15 percent. Yet, lending to the private sector did recover and turned strongly positive in 1992. 	<p>Favorable factors:</p> <ul style="list-style-type: none"> While inadequate legal framework hampered the restructuring and sale of assets, an extra-judicial tribunal was set up to mitigate the problem. However, NPART was slow to make use of the tribunal which turned out to often side with the debtor. NPART received substantial foreign aid in the form of money and technical support. A team of expatriate experts, among which two former US RTC officials, managed the operations of NPART. <p>Unfavorable factors:</p> <ul style="list-style-type: none"> Large amount of banking system loans transferred (assets transferred amounted to 51 percent of banking system assets) and no clear eligibility criteria for the type of assets to be transferred so that NPART ended up with disparate set of assets. Type of asset transferred. Over 50% of assets transferred were loans to state-owned enterprises, assets that are typically difficult to restructure for a government agency that lacks independence.
<p>Ghana: NPART.</p>				

Restructuring	Objectives of Restructuring Agency	Asset Transfer	Outcome	Key Factors
<p>Sweden:</p> <p>Securum:</p> <ul style="list-style-type: none"> Set up in 1992 and expected to operate between 10 and 15 years. Closed operations successfully in 1997. Public ownership. Set up as a stand-alone agency. <p>Retrieva:</p> <ul style="list-style-type: none"> Set up in 1993, was absorbed by Securum in 1995. Public ownership. Set up as a stand-alone agency. 	<p>Securum/Retrieva:</p> <ul style="list-style-type: none"> Established as clean-up agencies/bad banks for Nordbanken (Securum) and Gotha Bank (Retrieva), two banks that government had taken over. Recover maximum values of NPLs transferred to it, establish "best practice" in corporate restructuring for private banks. 	<ul style="list-style-type: none"> Amounts of Assets Transferred: Securum: Gross value: SEK 67 billion, 4.4 percent of total banking assets. Retrieva: Gross value SEK 45 billion or 3.0 percent of banking assets. Sectoral Breakdown of Assets: 80 percent of assets were related to the real estate market. Securum: Loans 91.1 percent; share portfolio 6.2 percent; real estate: 2.7 percent. Retrieva: Loans 86.2 percent; real share portfolio 1.6 percent; real estate 12.3 percent. Criteria for Asset Transfer: Mainly size and complexity of loan: only loans over SEK 15 million were transferred, and they typically consisted of corporation with operations in different countries or complicated structures in terms of subsidiaries. Both companies did not take over assets that could be securitized. Transfer Price: Assets were transferred at book value. 	<ul style="list-style-type: none"> Securum/Retrieva succeeded in managing and selling assets in relatively short period of time. Most of Securum's and Retrieva's assets were real estate assets. Shareholdings were mostly concentrated in construction companies. Thus, while Securum may have helped to expedite restructuring in the real estate and construction industry by enhancing the coordination among debtors, its impact on the restructuring efforts in other sectors of the economy appears limited. In terms of restructuring of Nordbanken and Gotha Bank, management was changed, they were operationally restructured and were successfully sold to private investors. Real lending to private sector by banks did not recover. In 1993/94 real credit to the private sector contracted significantly. 	<ul style="list-style-type: none"> Initial funding problems slowed down the establishment of NPART and the building up of professional expertise. Senior management consisted of political appointees. Lack of political independence of the agency. Failure to coordinate corporate restructuring efforts being undertaken by various government agencies and NPART. Weak legal framework. For example, asset sale was impeded by the fact that debtor had to agree with sale of assets. <p>Favorable factors:</p> <ul style="list-style-type: none"> Type of assets – mostly commercial real estate – made it easier to restructure as the assets were less politically sensitive (layoffs); high concentration of the economy may have made industrial restructuring easier. Also, transferred assets that were of particular type, size, and structure limited the amount of assets Securum had to deal with and made it a more manageable exercise. Private management and strong governance mechanisms which ensured the agency's independence. Prompt structured appraisal of assets and transparent process of asset management, restructuring and sale. Adequate legal framework. Adequate funding. Adequate skilled resources. Limited amount of assets being transferred (7.7 percent of banking sector assets). Recovery of real estate market. Recovery of economic growth. In 1994, real GDP growth turned positive. <p>Unfavorable factors:</p> <ul style="list-style-type: none"> Sporadic bouts of scandal due to the incentive-compensation scheme for employees.

V. Lessons from Cross-Country Experience

Table 4 summarizes the main characteristics of the country cases including the size of the banking system and the depth of the capital market, the quality of the legal framework as measured in the enforcement of creditor rights and the amount of assets transferred to the respective AMCs. As the Table indicates, initial conditions for AMCs were significantly weaker in the developing economies while at the same time AMCs in these countries had to deal with a notably larger problem as assets transferred to these agencies accounted for a large amount of banking system assets. For example, the legal framework was considerably weaker in developing countries and capital markets were less developed, as indicated by the low bond market capitalization. Governments in Ghana and the Philippines tried to compensate for the weak legal framework by granting superpowers to their respective AMCs (see Table 5). In both cases this strategy proved ineffective as despite strengthened creditor rights the courts remained either debtor friendly—Ghana—or the overall efficiency of the court system did not improve—Philippines.

Table 4 Characterization of Country Cases

	Initial Conditions				
	Enforcement of creditor rights ^a	Private sector claims in percent of GDP ^b	Bond market capitalization in percent of GDP (Private) ^b	Peak level of NPLs (in percent of financial system assets)	Amount of assets transferred (in percent of financial system assets) ^d
Finland	18.0	87	39.7	18.7	5.2
Ghana	1.0	6	NA	60.0	50.8
Mexico	6.0	41	1.1	18.9	17.0
Philippines	7.7	79	16.6 ^c	23.1	21.7
Spain	8.0	88	43.2 ^d	5.7	1.4
Sweden	24.0	145	58.5	10.8	7.4
USA	18.0	103	50.5	4.1	8.0

Source: a. The product of an index of how well the legal framework protects secured creditors and a law and order index. Creditor right index taken from Porta et al (1997) and law and order index taken from International Country Risk Guide, various editions. The index ranges from 0 to 24 with 0 as the lowest and 24 as the highest score. d. author's calculation. b. IMF, International Financial Statistics. Private sector claims and bond market capitalization are shown at the onset of the financial crises in these countries. c. 1983. D. 1990.

Table 5 presents an overview of the main characteristics of the AMCs established including its narrow objective, type of assets transferred—real estate assets or assets or loans to politically motivated loans—the independence of the agency, legal superpowers and funding resources. The table highlights that the success of the AMCs in developing countries was mainly hindered by the following factors. Firstly, AMCs in developing countries mostly received non-real estate, state-owned enterprise assets, or assets reflecting political connections. All of these types of assets tend to be harder to restructure especially for a government agency. Secondly, many AMCs in developing countries had to resolve large amounts of banking system assets and received assets regardless of their size. Thirdly, AMCs in developing countries were not set up as independent institutions and thus were susceptible to political pressure. Finally, they

often lacked appropriate funding to dispose of assets quickly. None of the developing countries outsourced the management of the assets to the private sector, including foreign investment banks and advisors which could have compensated for the lack of independence and could have curbed the scope for political interference.

Table 5 Characteristics of AMC's established

	Real estate assets (in percent of transferred assets)	Transfer of politically motivated assets	Agency is independent	Agency has legal superpowers	Outsourcing of management to private sector	Agency has appropriate funding
Finland	34	No	Yes	No	No	Yes
Ghana	Negligible	Yes	No	Yes	No	No
Mexico	NA	Yes	No	No	No	No
Philippines	Negligible	Yes	No	Yes	No	No
Spain	8.2	No	Yes	No	No	Yes
Sweden	80	No	Yes	No	No	Yes
USA	49	No	Yes	Yes	Yes	Yes, after initial problems

a. Business strategy includes type, size and amount of assets transferred. It is judged to be appropriate if it is in line with the resources of the agency including its funding, its institutional capacity and independence from political pressure and the development of the capital markets.

As a result, as Table 6 indicates, two out of three corporate restructuring AMC's did not achieve their narrow goals of expediting corporate restructuring. These experiences suggest that AMC's are rarely good tools to expedite corporate restructuring. Only the Swedish AMC successfully managed its portfolio, acting in some instances as lead agent in the restructuring process. It was helped by some special circumstances: the assets acquired were mostly real estate related, not manufacturing assets that are harder to restructure, and were a small fraction of the banking system, which made it easier for the AMC to maintain its independence from political pressures and to sell assets back to the private sector. Rapid asset disposition vehicles fared somewhat better with two out of four agencies, namely Spain and the US, achieving their objectives. The successful experiences suggest that AMC's can be effectively used, but only for narrowly defined purposes of resolving insolvent and unviable financial institutions and selling off their assets. But even achieving these objectives required many ingredients: a type of asset that is easily liquifiable—real estate—, mostly professional management, political independence, a skilled resource base, appropriate funding, adequate bankruptcy and foreclosure laws, good information and management systems, and transparency in operations and processes. In the Philippines and Mexico, the success of the AMC's was doomed from the start as governments transferred large amount of loans that had initially been extended by the originating banks based on political connections and/or fraudulent assets to the AMC's which are difficult to be resolved or to be sold off by a government agency. Both of these agencies did not succeed in achieving their narrow objectives.

Table 6 Evaluating the Country Cases

	Type/Objective of AMC established	Corporate restructuring/ asset disposition			Health of banking system	
		Share of assets <u>disposed</u>	Have AMCs achieved their <u>narrow objective</u>	Recurrent <u>problems</u>	Growth of <u>real credit</u>	Have AMCs achieved their broader <u>objectives</u>
Finland	Restructuring	>64	Unclear	No	Negative	Unclear
Ghana	Restructuring	Not applicable	No	Yes	Positive	Unclear
Mexico	Rapid Asset Disposition	0.1	No	Yes	Negative	No
Philippines	Rapid Asset Disposition	<50	No	Yes	Positive	Unclear
Spain	Liquidation	Majority	Yes	No	Positive	Yes
Sweden	Restructuring	86	Yes	No	Negative	Unclear
USA	Liquidation	98	Yes	No	Negative	Unclear

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Rapid Asset Disposition Agencies
Annex Table 1: Main Characterization of Banking Sector Crisis and Type of AMC Employed

Country Example	Causes of Financial Sector Crisis/Resolution Mechanism adopted by the government	Magnitude of financial sector crisis	Type and structure of AMC set up
Mexico (94 - 95)	<p><u>Causes of Financial Sector Crisis</u></p> <ul style="list-style-type: none"> • Liberalization of the financial system in 1989-90 which was not accompanied with an adequate strengthening of the regulatory and supervisory framework • Liberalization resulted in rapid asset/loan growth including consumer credit. Rapid credit growth strained credit assessment of bank accounts. • Privatization of banks in 1991/92 without ensuring that new owners were “fit and proper” or determining the quality of equity capital. • Political instability led to widened current account deficit and reduced demand by foreign investors for Mexican securities. <p><u>Resolution Mechanism adopted</u></p> <ul style="list-style-type: none"> • Authorities intervened in 9 banks (of 34 commercial banks). • The authorities implemented two programs: (i) a temporary recapitalization program (PROCAPTE); and (ii) A loan repurchase/recapitalization program under FOBAPROA’s auspices. FOBAPROA purchased loans from banks in exchange for 10-year nontransferable zero-coupon Government bonds. Eleven banks participated in the program. 	<p><u>Banking System:</u></p> <ul style="list-style-type: none"> • Financial system NPLs rose from 3.6% by September 1991 to 9.5% by September 1994 and 11.3% by September 1995, and 18.9% at peak. <p><u>Insolvent Banks:</u></p> <ul style="list-style-type: none"> • 9 out of 34 commercial banks -accounting for 18.9% of total financial system assets. <p><u>Financially weak banks:</u></p> <ul style="list-style-type: none"> • 12 (excluding the insolvent banks) participated in FOBAPROA’s restructuring scheme, 1 bank in another recapitalization program. • Financially weak and insolvent banks together accounted for 98% of financial system assets. 	<p><u>Type of AMC:</u></p> <ul style="list-style-type: none"> • Rapid asset disposition agency. <p><u>Centralized Approach:</u></p> <ul style="list-style-type: none"> • VVA, part of FOBAPROA, a Restructuring Agency. <p><u>Areas of Activities:</u></p> <ul style="list-style-type: none"> • Only asset sale. • Management and administration of loan portfolio until sale was left with banks (an attempt was made to incentive banks to manage assets as 25% of losses on loan sales was imposed on banks) • Loan repurchase program was aimed at restructuring of existing banks and cleaning up of intervened and closed banks to sell them off to new investors.
Philippines (81 – 86)	<p><u>Causes of Financial Sector Crisis</u></p> <ul style="list-style-type: none"> • Increases in oil prices and international interest rates, coupled with deterioration in terms of trade and a widening current account deficit resulted in a balance of payment crisis in October 1983. • Improper sequencing of financial sector reform in period of macroeconomic and political shocks led to widespread loose lending practices. Financial liberalization measures were not accompanied by a tightening of the regulatory and supervisory framework. • Concentration of lending to related parties and fraud and mismanagement. <p><u>Resolution Mechanism adopted</u></p> <ul style="list-style-type: none"> • Central Bank provided liquidity loans to ailing banks under oversight of central bank conservator. • Unviable and insolvent institutions were liquidated and depositors paid off. • Authorities arranged for government financial institutions to take over 6 private commercial banks; • PNB and DBP transferred non-performing assets amounting to 21.7 percent of total banking system assets to a government recovery agency (APT); government then recapitalized banks and assumed deposit liabilities equal to the book value of NPLs minus capital infusion; operational restructuring followed including reorganization of staff and management, setting up of new credit appraisal procedures etc. 	<p><u>Banking System:</u></p> <ul style="list-style-type: none"> • At their peak level, system-wide NPLs stood at 23.1 percent. <p><u>Insolvent Banks:</u></p> <ul style="list-style-type: none"> • Three commercial banks, 128 rural banks and 32 thrift institutions failed; 2 other private banks were intervened. • The hardest hit were the largest commercial bank, the Philippine National Bank (PNB) and the Development Bank of the Philippines (DBP), both state-owned, which became de facto insolvent in 1986. They together accounted for nearly 50% of financial system assets. 	<p><u>Type of AMC:</u></p> <ul style="list-style-type: none"> • Rapid asset disposition agency. <p><u>Approach:</u></p> <ul style="list-style-type: none"> • Centralized approach. APT, Stand-alone agency. <p><u>Areas of Activity</u></p> <ul style="list-style-type: none"> • APT’s mandate included the disposition of non-performing assets transferred from three GFIs; • APT was a rapid sale agency. Any restructuring of the asset was limited to physical enhancement of the assets such as repairs. But even such enhancement operations were done on only a minority of the assets that were sold. In fact, most assets were sold on “as is, where is” basis. • In 1991, its mandate was extended to include the temporary administration of government-owned or controlled operations pursued under the Government’s privatization program.

Rapid Asset Disposition Agencies
Annex Table 1: Main Characterization of Banking Sector Crisis and Type of AMC Employed

<p>Spain (77 – 85)</p>	<p><u>Causes of Financial Sector Crisis</u></p> <ul style="list-style-type: none"> • Accumulated losses during the 1970s and early 1980s, exacerbated by rising oil prices, double digit inflation and rigidities in the labor market and productive sector. These factors undermined the profitability and solvency of enterprises. • Rapid liberalization of the banking sector following 1971 and 1974 reforms facilitated the establishment of new banks and new branches but adequate regulation and supervision fell behind. Many new banks lacked professional experience and ethical standards expected of sound bankers. • Bank expansion was accompanied by the formation of large industrial bank groups that gave rise to problems such as purchase with small down payment and extensive debt, use of relatively inexpensive deposit base for speculative investment in banks often with inflated purchase prices, cross-ownerships with other banks and evasion of lending limits to single borrowers. • Sharp decline of the stock market during 1974-80 led banks and their related or controlling groups to turn to real estate investment. But as property prices fell, the banks were forced to renew loans and capitalize interest arrears to their borrowers. <p><u>Resolution Mechanism Adopted</u></p> <ul style="list-style-type: none"> • 3 small institutions were liquidated. • 26 banks were taken over by the Spanish Deposit Insurance Fund, recapitalized and resold. • 20 RUMASA banking institutions were nationalized and later privatized. 	<p><u>Banking System</u></p> <ul style="list-style-type: none"> • Financial system NPLs non-performing loans to total loans reached their highest levels at 5.7 percent in 1985. <p><u>Insolvent Financial Institutions:</u></p> <ul style="list-style-type: none"> • Crisis affected 52 of 110 Spanish banks which together accounted for more than 20% of total deposits and 21 % of total net worth. 	<p><u>Type of AMC:</u></p> <ul style="list-style-type: none"> • Rapid asset disposition agency. <p><u>Approach:</u></p> <ul style="list-style-type: none"> • Centralized approach.. Not stand alone entity but part of Spanish Deposit Guarantee Fund which acted as “bank hospital” serving as a vehicle for rehabilitation of banks and liquidations. <p><u>Areas of Activities:</u></p> <ul style="list-style-type: none"> • On a trial and error basis, rather than a systematic approach, the Fund used any one or combination of instruments to restructure the bank and facilitate its sale within a maximum of one year. These included: (i) partial or complete write-off of capital and subsequent injection of capital; (ii) interest-free or “special” loans; (iii) acquisitions of assets (nonperforming, real estate, moveable assets, enterprises). • Assets that could not be sold to new investors of banks or of banks that underwent liquidations were sold off.
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Rapid Asset Disposition Agencies
Annex Table 1: Main Characterization of Banking Sector Crisis and Type of AMC Employed

<p>United States (84 - 91)</p>	<p><u>Causes of Financial Sector Crisis</u></p> <ul style="list-style-type: none"> • During the late 1970s and early 1980s, high interest rates and an inverse interest rate structure led to massive losses for thrifts that funded their long-term assets with short-term deposits. • The regulatory agency engaged in forbearance (weakening of capital standards etc) and deregulated the S&L sector allowing thrifts to go into (on a limited basis) commercial real estate, unsecured consumer lending). Moreover, the insurance coverage was increased from US \$ 40,000 to US \$ 100,000. • Against the background of expanded opportunities and an incentive structure that favored risk taking, S&Ls expanded their activities rapidly. The decline in oil prices in the first half of the 1990s and the bursting of the real estate bubble in the later half of the 1980s adversely affected the solvency of a large number of S&Ls. • Structural problems of S&Ls: reliance on short-term deposits to finance long-term fixed rate home mortgages in a period of rising interest rates caused depositors to look for more attractive investments, as deposit rates were controlled. Deposits were replaced by expensive borrowing, and S&Ls could not offer variable mortgage rates. Consequently, asset earnings deteriorated, due to rising costs of funding. • Lending authorities(?) of S&Ls greatly expanded by adding commercial lending. As a result, thrifts invested heavily in commercial real estate. When the real estate crisis hit, towards the mid 1980s, nearly one third of the real estate industry was on the verge of collapsing. <p><u>Resolution Mechanism Adopted</u></p> <ul style="list-style-type: none"> • At first, regulatory authorities engaged in forbearance hoping that problems were temporary and could be resolved via recapitalization on a flow basis. • Moreover, the early resolution programs were limited in scope and largely unsuccessful (for example Management Consignment Program; the Southwest Plan, instituted for S&Ls in the Southern regions during which 329 insolvent thrifts were disposed off; establishment of an asset disposition program FADA in 1985 which was dismantled in 1989. • In late 1980s, authorities moved much more aggressively against weak and insolvent institutions. In 1989, Resolution Trust Corporation was set up specifically to resolve all insolvent thrifts. 	<p><u>Banking System:</u></p> <ul style="list-style-type: none"> • Level of NPLs during height of S&L crisis: 3 percent. <p><u>Insolvent Financial Institutions:</u></p> <ul style="list-style-type: none"> • 1,295 out of 3,263 thrifts were insolvent which accounted for 13% of thrift and bank assets (USD 621 billion) 	<p><u>Type of AMC:</u></p> <ul style="list-style-type: none"> • Rapid Asset Disposition Agency. <p><u>Approach:</u></p> <ul style="list-style-type: none"> • Centralized. RTC was created in 1989 as a temporary agency to resolve all failed thrift institutions. <p><u>Areas of Activities:</u></p> <ul style="list-style-type: none"> • Liquidation agency for S&Ls declared insolvent by the Office of Thrift Supervision or former FSLIC. • Purchase and assumption transactions where healthy institutions bid to assume deposit liabilities in exchange for receiving a combination of assets and cash. • Accelerated resolution program through which S&Ls that were believed to have good franchise value were sold. • Deposit payoff and insured deposit transfer. • Asset sale.
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**Rapid Asset Disposition Agency:
Annex Table 2: Main Characteristics of AMC**

Country Example	Ownership & Legal Structure of AMC	Governance Structure & Disclosure Requirements	Objectives of AMCs
<p>Mexico (94 - 95)</p>	<p><u>Ownership:</u></p> <ul style="list-style-type: none"> Public ownership: Central Bank. <p><u>Legal Structure:</u></p> <ul style="list-style-type: none"> Trust within the Central Bank 	<p><u>Governance Structure:</u></p> <ul style="list-style-type: none"> Policy decisions are made by a Technical Committee whose members are the Minister of Finance, the central bank governor, and the CNBV (supervision body) president. <p><u>Disclosure Requirements:</u></p> <ul style="list-style-type: none"> Financial statements are not publicly available and the government does not disclose publicly the amount of capital or other resources available to AMC. <p><u>Independence of AMC:</u></p> <ul style="list-style-type: none"> Controlled by Central Bank and Government and susceptible to political pressure and interference. 	<p><u>Objectives:</u></p> <ul style="list-style-type: none"> FOBAPROA's original goal was to sell or recover assets as quickly as possible, through auctions, securitization, or other market mechanisms. Purchase of non-performing assets from banks was used as a restructuring mechanism for intervened banks as well as for banks remaining in operation.
<p>Philippines (81 - 86)</p>	<p><u>Ownership:</u></p> <ul style="list-style-type: none"> Public ownership: National Government. <p><u>Legal Structure:</u></p> <ul style="list-style-type: none"> Asset Privatization Trust (APT) self-standing government institution that served as the government's trustee for the disposition of assets. 	<p><u>Governance Structure:</u></p> <ul style="list-style-type: none"> APT was supervised by an inter-ministerial body called Committee on Privatization (COP) with far flung responsibilities including (i) monitoring the status of the overall divestment program and the process of the asset disposition, (ii) granting approval for the terms for individual sales, and (iii) deciding on the amounts retained by APT from the proceeds of asset sales. APT's financing was approved through the government's budgetary process & hiring of staff was management's responsibility. COP comprised the Minister of Finance, Director General of NEDA, Minister of Budget, Minister of Trade and Industry and Minister for Government Reorganization. COP was created initially for a period of 5 years and has remained a supervisory body for APT. <p><u>Disclosure Requirements:</u></p> <ul style="list-style-type: none"> Not subject to any public disclosure requirements. Is required to submit annual reports to the President of the Philippines, the Ministry of Finance and to Congress on the status of its asset disposition program including description of the individual assets sold, the purchasers, and agreed payment terms. <p><u>Independence of AMC:</u></p> <ul style="list-style-type: none"> APT was subject to political interference as COP had wide ranging involvement in operations and had to approve each single asset sale. Furthermore, despite APT's procedures, it succumbed to Congressional criticisms on the sale price of the assets which resulted in a slowdown of the disposition process. 	<p><u>Objectives:</u></p> <ul style="list-style-type: none"> To seek an orderly and fast transfer of non-performing assets to the private sector and administer them pending disposal.

**Rapid Asset Disposition Agency:
Annex Table 2: Main Characteristics of AMC**

Country Example	Ownership & Legal Structure of AMC	Governance Structure & Disclosure Requirements	Objectives of AMCs
Spain (77 – 85)	<p><u>Ownership:</u></p> <ul style="list-style-type: none"> Public ownership <p><u>Legal Structure:</u></p> <ul style="list-style-type: none"> Government Guarantee Fund was given the legal capacity in 1980 to assume bank ownership to initiate bank restructuring in addition to its original mandate of ensuring depositor protection. 	<p><u>Governance Structure:</u></p> <ul style="list-style-type: none"> Governed by an eight member Board of Directors. Four members are bankers of acknowledged standing (appointed by the Ministry of Finance upon proposal by the central bank), who serve in their individual capacity and not as representatives of their banks. The remaining four are Directors of the central bank. The Board is chaired by a representative of the central bank. <p><u>Disclosure Requirements:</u></p> <ul style="list-style-type: none"> Annual audited financial statements were disclosed to the public. 	<p><u>Objectives:</u></p> <ul style="list-style-type: none"> Restructure banks for prompt resale by carving out bad assets that new investors were unwilling to take on. Prompt sale of carved out assets with the aim to maximize recovery value
United States (84 – 91)	<p><u>Ownership:</u></p> <ul style="list-style-type: none"> Public ownership <p><u>Legal Structure:</u></p> <ul style="list-style-type: none"> RTC was established as temporary federal agency 	<p><u>Governance Structure:</u></p> <ul style="list-style-type: none"> <i>Initial structure:</i> RTC management lay with FDIC. A high-level Oversight Board monitored RTC's activities and was accountable for RTC's policy, strategic planning and budget and was barred from specific case involvement. It consisted of the following five members: 1) Secretary of the Treasury (chairman); 2) Chairman of the Federal Reserve Board; 3) Secretary of Housing and Urban Development; 4) Two executives from the private sector. <i>Modified structure at the urging of FDIC:</i> the 1st structure resulted in confusion with regard to public accountability and contributed to friction between the FDIC and RTC management. In 1992, RTC became an independent organization headed by a chief executive that was responsible for many of the activities assigned to oversight board and FDIC. The Oversight Board was replaced by the new Thrift Depositor Oversight Board which representation from both RTC and FDIC and was primarily responsible for approving requests for government funds, reviewing policies and strategies. FDIC was relieved of its management responsibilities. <p><u>Disclosure Requirements:</u></p> <ul style="list-style-type: none"> Mandatory and extensive reporting to the Oversight Board Publication of annual audited financial statements (GAO audit) Information readily available to the public (RTC had a public information room, press releases on every resolution/closing and other RTC initiatives). 	<p><u>Objectives:</u> RTCs stated objectives were both commercial and social namely:</p> <ul style="list-style-type: none"> Maximize net value of proceeds from S&L resolution. Minimize impact on local real estate and financial market. Make efficient use of received funds. Minimize resolution costs. Social Mandate: maximize available and affordable housing for low-to-moderate income individuals.

**Rapid Asset Disposition Agency:
Annex Table 3: Legal Environment and Management of AMC**

Country Example	Sunset Clause and if yes, was it honored	Broader Legal Environment in which AMC operated	Management of AMC and Quality and Remuneration of Staff	Funding of AMC
Mexico (94 - 95)	<ul style="list-style-type: none"> No sunset clause. 	<p><u>Adequacy of bankruptcy and foreclosure law:</u></p> <ul style="list-style-type: none"> Lack of functioning bankruptcy system. Owing to political pressure, existing foreclosure regulation was not allowed to be enforced from Dec 1994 to 1997, making it impossible for FOBAPROA's capacity to foreclose on NPLs. <p><u>Did AMC have any superpowers? If so, what type:</u></p> <ul style="list-style-type: none"> No. 	<ul style="list-style-type: none"> FOBAPROA: Managed by the central bank. FOBAPROA relied entirely on the staff of the central bank and thus was affected by the lack of expertise in administering asset resolution. 	<ul style="list-style-type: none"> Annual and special contributions from commercial banks and from lending extended to it by the central bank; plus, borrowings from the central bank. May also borrow from the Government through the MoF. Funding was insufficient and the lack of adequate funding severely hampered asset sales.
Philippines (81 - 86)	<ul style="list-style-type: none"> 5 years (1987-91). To date, APT is still in operation. In addition to the non-performing loans, APT was charged with the divestiture of very large government corporations in 1991 (with the intention of being the Fund Manager for the proposed Philippine Privatization Fund); and thus Congress amended APT's life to another five years, i.e., up to 1996. In 1996, APT's lifetime was again extended until end-1999. 	<p><u>Adequacy of bankruptcy and foreclosure law:</u></p> <ul style="list-style-type: none"> In the Philippines, foreclosure lenders that want to foreclose on assets need to go through the judicial process. Some loans from DBP and PNB were transferred with already existing legal disputes, including those on collateral foreclosure, that APT had to contend with. When APT lost its immunity from lawsuits strictly vis-à-vis the sale of assets, it further hampered disposition. The immunity meant that APT could not be sued for the sale of the assets or could not be made subject to restraining orders to halt proposed sales. <p><u>Did AMC have any superpowers? If so, what type:</u></p> <ul style="list-style-type: none"> Under its original statute, APT was provided with immunity from lawsuits vis-à-vis the sale of assets. APT lost those powers in 1991 when the original statute under which it was created expired. As 40-50% of the assets transferred remain in APT's portfolio to this date, APT essentially lost the opportunity to divest the assets quickly while the immunity was still in force. 	<ul style="list-style-type: none"> APT's Board of Trustees was appointed by the President of the Philippines (Chief Executive Trustee and 4 Associate Executive Trustees). The qualifications of the trustees hired in 1987 were as follows: the Chief Trustee was a respected banker and three associate trustees were private businessmen. It is not clear if it continued that way. APT was empowered to hire its own staff, although it was envisaged that it would rely as much as possible on secondments from other government entities. Moreover, APT could draw on external expertise and outsourcing in areas where it would prove costly to build up internal expertise. Management of the assets pending asset sale was out-sourced to DBP and PNB, banks which held NPLs prior to the transfer under a management contract with APT. Initially, APT staff were exempt from the standardization rule on Government salaries. Thus APT was able to attract skilled staff. However, when its lifetime was extended, this exemption was removed. According to APT's current management, it has had no problems in attracting skilled staff. 	<ul style="list-style-type: none"> Initial capital of P 90 million pesos was equity through an appropriation from the national budget; amounts authorized to be taken from the proceeds of disposition agreed by COP; annual appropriations from the budget; external assistance; service fees levied on trusted assets as approved by COP.

**Rapid Asset Disposition Agency:
Annex Table 3: Legal Environment and Management of AMC**

Country Example	Sunset Clause and if yes, was it honored	Broader Legal Environment in which AMC operated	Management of AMC and Quality and Remuneration of Staff	Funding of AMC
Spain (77-85)	<ul style="list-style-type: none"> No sunset clause. Guarantee Fund is still in operations. 	<p><u>Adequacy of bankruptcy and foreclosure law:</u></p> <ul style="list-style-type: none"> The then prevailing laws governing bankruptcy or liquidation dated from the 19th century and were therefore, archaic, complex, and inefficient. In particular, the recovery of creditors' claims was a very costly process. Moreover, the lack of relevant professional skills of the judicial system's employees hampered efficient debt restructuring (whose inclination was to simply reduce the size of debts). <p><u>Did AMC have any superpowers? If so, what type:</u></p> <ul style="list-style-type: none"> The expansion of powers under the royal decree of 1990 gave the Fund legal status for bank restructuring that included asset resolution as one of the instruments. With respect to bankruptcy and foreclosure, the Fund was/is not equipped with any extra-legal powers. 	<ul style="list-style-type: none"> Fund was professionally managed. Executive director of the Fund (called its Secretary General) managed a staff (120 persons at its peak down to 40 in the late 1980s) and consisted of commercial bankers, lawyers, and technical experts. Salaries paid were slightly above those in commercial banks. 	<ul style="list-style-type: none"> Equal contributions by the central bank and the Spanish banking system. Because the Fund was established in the midst of the crisis and the financial resources from the above proved insufficient, the central bank was empowered by law to make long-term loans at the rediscount rate to the Fund, with no limit.
United States (84 - 91)	<ul style="list-style-type: none"> RTC was to cease existence at end Dec. 1996 Sunset clause honored (RTC created in 1989 and closed at end-95) 	<p><u>Adequacy of bankruptcy and foreclosure law:</u></p> <ul style="list-style-type: none"> Existence of adequate and enforceable bankruptcy and foreclosure laws facilitated the resolution process. <p><u>Did AMC have any superpowers? If so, what type:</u></p> <ul style="list-style-type: none"> RTC had superpowers which included: <ul style="list-style-type: none"> -right to void burdensome contracts; -authority to override certain state laws (e.g. branching rights); -right to disavow claims by S&Ls borrowers. RTC had power to resolve thrifts through conservatorship or receivership 	<ul style="list-style-type: none"> Professional management: Majority of RTC senior personnel came from the FDIC who were familiar and experienced with resolution of insolvent institutions RTC made extensive use of private sector contractors for asset disposition and related tasks RTC pay levels were based on government pay scales, but were somewhat higher (+10%) because they included locality and other differentials. No special incentives other than possibilities for awards based on special achievements 	<ul style="list-style-type: none"> Two categories of funding: <ul style="list-style-type: none"> -Government funding "loss funds" (unrecoverable expenditures) -Working capital (expenses to be repaid eventually from interest on asset collection) Legislation provided for USD 91 billion in loss funds (initially USD 50 billion) but did not provide for working capital Lack of working capital and delays in government funding hampered speedy resolution. It forced institutions to stay in conservatorship for extended periods.

Rapid Asset Disposition Agency
Annex Table 4: The Asset Transfer Process

Country Example	Criteria for asset transfer and transfer price	Process of Asset Transfer	Amount and Sectoral Breakdown of Assets transferred to AMC
<p>Mexico (94 - 95)</p>	<ul style="list-style-type: none"> • <u>Criteria for asset transfer:</u> Process of asset transfer was nontransparent; there were no clear policies nor guidelines developed for type of loans that were eligible for transferal. • This led to perceptions that some banks were receiving more favorable treatment than others. • <u>Transfer price:</u> book value. 	<ul style="list-style-type: none"> • FOBAPROA would purchase loans from banks in an amount equal to roughly two times the amount of new equity (including mandatory convertible subordinated debt) that shareholders were willing to commit to bank. • Loans were transferred at book value. • FOBAPROA did not value nor write down loans immediately after transfer because of a lack of funding and out of hesitation to reveal the true losses. 	<p>Amount of total assets transferred as percentage of total banking system assets/banking system loans, and as percentage of GDP</p> <ul style="list-style-type: none"> • P142 billion (P119 billion net of reserves for loan losses) were transferred. This amounted to 22.8% of the banking system's total loans; or 17% of total banking system assets, and 11% of GDP <p><u>Sectoral breakdown of assets transferred :</u></p> <ul style="list-style-type: none"> • Assets transferred included consumer, mortgage and corporate loans (Breakdown NA). <p>Were any loans left in banks and if so, amount and type:</p> <ul style="list-style-type: none"> • Yes
<p>Philippines (81 - 86)</p>	<ul style="list-style-type: none"> • <u>Criteria for asset transfer:</u> Transferred assets were those accounts whose individual book values amounted to more than P10 million. • <u>Transfer Price:</u> Assets were transferred at book value. 	<ul style="list-style-type: none"> • When assets were transferred, DBP and PNB had already foreclosed on those loans. APT attempted to take title and possession of assets; if necessary it could file suits for the recovery and protection of such assets. • Assets transferred are valued by third party appraisers every three months. 	<p>Amount of total assets transferred as percentage of total banking system assets/banking system loans, and as percentage of GDP</p> <ul style="list-style-type: none"> • Assets of about P 108 billion (US\$ 5 billion equivalent) with estimated recovery value of about US 1 billion were transferred to APT which amounted to 21.7% of total banking system assets or 17.7% of GDP. • As a consequence, the two public banks shrank dramatically. In case of DBP, total assets were reduced from P 74 billion to P 10 billion and for PNB, from P 70 billion to P 26 billion. <p><u>Sectoral breakdown of assets transferred :</u></p> <ul style="list-style-type: none"> • Distribution of the 389 accounts: agriculture 37; government 44; manufacturing 159; mining 27; service, trading, utilities and others 116. • 70% of asset value was concentrated in 59 assets (or 15% of the accounts). <p>Were any loans left in banks and if so, amount and type:</p> <ul style="list-style-type: none"> • Yes, non-performing accounts each with a value of not more than P 10 million. • Estimated that these amounted to P 27 billion or 20% of the combined assets of the two banks, or 9-10% of the banking system assets.

Rapid Asset Disposition Agency
Annex Table 4: The Asset Transfer Process

<p>Spain (77 - 85)</p>	<ul style="list-style-type: none"> • <u>Criteria for Transfer of Ownership to Guarantee Fund:</u> The transfer of control of entire banks to the Fund occurred at a shareholders assembly convened no later than 7 days after the central bank's request. Beforehand, the Central Bank informed shareholders of the extent of losses and the impact of write-offs on the capital and reserves of the problem bank. 	<ul style="list-style-type: none"> • Upon assuming control of the bank, the Fund removed the existing senior management and appointed a new management team, performed due diligence, undertook restructuring measures such as securing and collection of loans, liquidation of fixed assets, reduction in financial costs and cuts in staff and general overhead and design of a financial assistance package. • Mostly the large domestic banks purchased or took over the banks; the foreign banks that participated in the resale included: Barclays, BNP, BCCI Holdings, Citibank (in consortium), Chase Manhattan. Legally, they had to offer bank for sale within a year. • Fund coordinated its operations closely with the central bank, especially in the early and final stages of intervention. Both worked closely together in designing the financial packages that were the basis of negotiations for the resale of the bank. 	<p><u>Amount of total assets transferred as percentage of total banking system assets/banking system loans, and as percentage of GDP:</u></p> <ul style="list-style-type: none"> • Of the 28 banks resolved through the Fund, most were absorbed by domestic and foreign banks. These banks accounted for x percent of total banking system assets. Prior to their sale, assets amounting to 373 billion pesetas were carved out and transferred to the Deposit Guarantee Fund. <p><u>Sectoral breakdown of assets transferred:</u></p> <ul style="list-style-type: none"> • Assets: Ptas 270 billion, equivalent to 72.4% of total 373 billion. • Real estate: Ptas 30.7 billion, or 8.2% of total. • Shareholdings: 72.2 billion, or 19.4% of total. <p><u>Were any loans left in banks and if so, amount and type:</u></p> <ul style="list-style-type: none"> • Yes. Performing assets were left in banks which were being sold.
<p>United States (84 - 91)</p>	<ul style="list-style-type: none"> • <u>Criteria for asset transfer:</u> NA. • <u>Transfer Price:</u> NA. 	<ul style="list-style-type: none"> • Resolution Process: institutions were placed under RTC conservatorship with the objective to prepare them for sale while preserving any franchise or business value. This process required establishing control, stopping speculative or abusive practices, identifying and evaluating assets and liabilities, minimizing operating losses, and beginning an orderly downsizing. • Then institutions were either sold in P&As, or through the accelerated resolution program, or resolved by deposit payoff or insured deposit transfer or liquidation. • Assets that could not be sold through P&As and other methods were sold off via securitization of homogenous assets 	<p><u>Amount of total assets transferred as percentage of total banking system assets/banking system loans, and as percentage of GDP:</u></p> <ul style="list-style-type: none"> • Assets taken over by the RTC: USD 455 billion, accounting for about 8.5% of total bank and thrift assets (approximately 8% of GDP). • Assets sold via asset disposition (not as part of the institution or through collection): USD 153 billion, equivalent to 2.7% of GDP. <p><u>Sectoral breakdown of assets transferred :</u></p> <ul style="list-style-type: none"> • 1-4 unit family mortgages:25% • Other mortgages:17% • Real estate:7% • Other loans:8% • Cash and securities: 35% • Other assets: 8% <p><u>Were any loans left in banks and if so, amount and type:</u> Not applicable.</p>

Rapid Asset Disposition Agency
Annex Table 5: Process of Asset Dispositions

Country Example	Process of Asset Sale/disposition: timeframe, procedure (including type of auctions, when applicable) and type of assets sold	Results of asset sale—Recovery per \$ of assets sold	Assets sold and assets that remain on books of AMC (as % of total)
<p>Mexico (94 – 95)</p>	<p><u>Was transfer of assets a one-off process?</u></p> <ul style="list-style-type: none"> • Three rounds of assets sales; one occurred in 1995, and two rounds occurred in 1996. <p><u>Procedure for sale of assets:</u></p> <ul style="list-style-type: none"> • One small trial auction was conducted which involved real estate backed assets amounting to 0.11% of total loans purchased from banks in 1997. 	<p><u>Result of Asset Sale:</u></p> <ul style="list-style-type: none"> • P150 million face amount. • Winners bid only 49% of face value, exposing the authorities to criticism from the opposition and from certain quarters within the government. <p><u>Purchaser of Assets:</u> The winning bidder for the one auction that took place in August 1997 was a joint venture that involved Goldman Sachs.</p>	<ul style="list-style-type: none"> • Up to end of 1998, only 0.05 of assets were sold.
<p>Philippines (81 – 86)</p>	<p><u>Was transfer of assets a one-off process?</u></p> <ul style="list-style-type: none"> • Yes. <p><u>Procedure for sale of assets</u></p> <ul style="list-style-type: none"> • Assets were sold through public bidding but also negotiated sales in exceptional cases. • In instances where public auctions “failed” to result in a sale twice, APT could undertake a negotiated sale. The Commission on Audit had to approve the latter type of transactions. • APT obtained three appraisal values from third party appraisers. Then an announcement would be published to invite bidding on the assets with information on the asset, the company, the bidding process, the appraised value. <p><u>Timeframe:</u></p> <ul style="list-style-type: none"> • The average time it took to sell assets through public bidding was one month from the date when the invitation for bidding is published. • Two forms of pricing: (i) an indicative or base price – the appraised value; and (ii) open pricing. • The auction method was the preferred procedure and APT’s public announcement provided information of the asset’s appraised value. If two auctions did not result in a sale, APT resorted to open pricing. If the latter still failed to yield a sale, then the asset could be offered for a negotiated sale. • In case of open pricing, if the fair market value is deemed to exceed the highest bid received, alternative procedures could be followed to try to get as close to the market value through a negotiated sale. 	<p><u>Result of Asset Sale:</u></p> <ul style="list-style-type: none"> • APT reached its 1987-91 sales target of US\$ 1 billion (out of the transfer value of \$5 billion) in sales after privatizing all or part of 245 of the total accounts. • 50-60 % of original assets transferred were sold over 11 years, i.e., since APT’s creation in 1987. <p><u>Purchaser of Assets:</u> Not applicable.</p> <p>Operating principles gave preference to domestic buyers and excluded former owners. In reality, some former owners succeeded to reduce their assets and DBP bought back some loans.</p>	<ul style="list-style-type: none"> • 40-50% of assets still remain in APT’s portfolio.

Rapid Asset Disposition Agency
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<p>Spain (77 - 85)</p> <p>Spain (77-85)</p>	<p><u>Was transfer of assets a one-off process?</u></p> <ul style="list-style-type: none"> Generally, bank take-over was a one-off process. However, the Fund intervened twice in the Banco Industrial del Mediterraneo, in 1980 and 1982. <p><u>Process of asset sale:</u></p> <ul style="list-style-type: none"> Assets were sold through (i) divestiture of stock holdings of the Fund in firms or holding companies or liquidations; (ii) sale of real estate acquired; (iii) sale of portfolio of security holdings; (iv) sale of loans (no information on selling methods). <p><u>Accumulated losses/profits:</u></p> <ul style="list-style-type: none"> Purchase of assets continued through 1985 and the sale of most assets have been completed. According to the Deposit Guarantee Fund's 1986 annual report (taken as year crisis subsided): -Losses related to clean-up of banks: Ptas 25.7 billion -Accumulated losses: 90 billion pesetas. 	<p><u>Result of Asset Sale:</u></p> <ul style="list-style-type: none"> <i>Sale of Banks.</i> Of the 29 banks resolved through the Fund and most were absorbed by domestic and foreign banks. Mostly large domestic banks purchased or took over the banks; the foreign banks that participated in the resale included: Barclays, BNP, BCCI Holdings, Citibank (in consortium), Chase Manhattan. <i>Sale of Assets.</i> With regards to the loans that could not be sold to the new investors of the banks, sale of mortgage loans and real estate proved most successful. Most assets were sold but a few still remain in the Fund's portfolio. <p><u>Purchaser of Assets:</u> Both domestic and foreign</p>	<ul style="list-style-type: none"> The Fund has been able to sell almost everything. But, they have still have a minimal amount of assets.
<p>United States (84 - 91)</p>	<p><u>Was transfer of assets a one-off process?</u> Not applicable.</p> <p><u>Timeframe:</u> assets remained in conservatorship for 13 months on average before liquidation</p> <p><u>Procedure & Type of Assets sold:</u></p> <ul style="list-style-type: none"> RTC asset disposition tools for assets that were not sold to acquiring bank thrift (in general about 21% of assets was passed on to acquirers, mostly securities and 1-4 family mortgages): -Securitization (accounted for 27% of assets sales): primary method for sale of all performing 1-4 family mortgages; multi family and commercial mortgages; and consumer loans. -Bulk portfolio sales "structured transactions"(14% of asset sales): primarily used to dispose off non-performing commercial mortgages and problem real estate. Method used to achieve high velocity of sales since selling commercial assets one by one would have taken years. It took generally up to 9 months to package and close the sales of such large pools of assets (almost 70 % were in pools over \$ 200 million each). -"Equity participation" (11% of asset sales): designed to dispose off non-performing loans and certain real estate. The RTC, as a limited partner, contributed assets to the limited partnership while the private sector partner (general partner) was responsible for the management and disposition of assets. The cash flow derived from asset disposition was the divided (on a predetermined basis) between the RTC and the general partner. 	<p><u>Result of Asset Sale:</u></p> <ul style="list-style-type: none"> <u>Recovery rate:</u> -86 cents to the dollar (losses at disposition/total assets taken over by the RTC). -In general, wholesale asset sales (securitization, bulk sales, equity partnerships and auctions) had higher net recovery rates compared to retail sales (private contractors) because of faster disposition rate and shorter holding periods. -The recovery rate ranged from 98% for securities, 96% for 1-4 family mortgages, to 55% for real estate. -Of 747 resolved thrifts, 497 were purchase and assumption (P&As), 158 were insured deposit pay-offs, and 92 were uninsured deposit payoffs. 	<ul style="list-style-type: none"> RTC assets at book value (\$455 billion disposed off + \$8 billion remained on books) of which: -Assets sold: 33% -Collections:31% -Cash & Securities:10% -Assets transferred to purchaser of thrifts: 11% -Losses:13% -Remaining assets (transferred to FDIC): 2%.

Rapid Asset Disposition Agency
Annex Table 5: Process of Asset Dispositions

Country Example	Process of Asset Sale/disposition: timeframe, procedure (including type of auctions, when applicable) and type of assets sold	Results of asset sale—Recovery per \$ of assets sold	Assets sold and assets that remain on books of AMC (as % of total)
<p>United States (84 – 91)</p>	<p>-Auctions (2% of asset sales): used to sell a large volume of relatively small homogenous assets at a single event. For these auctions, RTC stratified loans to produce homogenous packages – assets were auctioned according to type, asset size and location. Loan assets used for the auctions were mostly non-performing.</p> <p>-Outsourcing to private companies – referred to as “retail” asset disposition method in contrast to “wholesale” for the above mentioned programs (21% of asset sales): one of the principal methods to dispose off more complex and diverse portfolios including commercial, consumer and credit card loans; commercial and residential real estate; and subsidiaries assets. Private contractors were paid on a fee basis, which included performance-based fees (depended on speed of asset sales and amounts recovered).</p> <p>-Affordable housing program (1% of assets sales): in compliance with the RTC social mandate, more than 100,000 units of affordable housing (single and multi family units) sold to lower-income families accompanied by seller financing facilities.</p> <p>Other sales (24% of asset sales): included furniture, fixtures, equipment, loans and real estate sold by RTC field offices.</p> <p><u>Accumulated losses/profits:</u></p> <ul style="list-style-type: none"> • Since inception and through 1995, RTC losses amounted to USD 88 billion of which <ul style="list-style-type: none"> -Realized losses and expenses (89 – 95): USD 81 billion. -Estimated future losses: USD 7 billion. <p>Losses include operating expenses and losses from assets sales.</p>	<p><u>Purchaser of Assets:</u></p> <ul style="list-style-type: none"> • Mostly domestic institutional investors, but there were international investors as well. In addition, the RTC had a special program targeted at smaller investors (limited program). Purchasers had to sign eligibility certificate, in which they basically certified that they were ethical and had not previously been responsible for causing losses at a failed institutions. 	

Restructuring Agencies
Annex Table 6: Main Characterization of Banking Sector Crisis and Type of AMC Employed

Country Example	Causes of Financial Sector Crisis/Resolution mechanism adopted by the government	Magnitude of financial sector crisis	Type and Structure of AMC set up
Finland (91 – 94)	<p><u>Causes of Financial Sector Crisis</u></p> <ul style="list-style-type: none"> • Liberalization of financial sector in late 1980's without appropriate strengthening of regulatory and supervisory framework, particularly in savings bank sector. • Liberalization led to rapid credit growth which strained financial institutions credit assessments and monitoring capacity particularly in savings sector. • Break-up of Soviet Union and with it collapse of Finnish export business. • Devaluation of markka by over 30%, which adversely affected deposit money banks as they were indirectly exposed to foreign exchange risk. <p><u>Resolution mechanism adopted</u></p> <ul style="list-style-type: none"> • In 1991, the central bank took over Skopbank. • In 1992, the government (i) offered capital support facility for deposit money banks and injected up to 12% of the sector's regulatory prescribed capital into the sector; and (ii) set up the Government Guarantee Fund (GGF) "to safeguard the stable functioning of the banking system". • GGF supported 41 savings banks (later amalgamated to form the Savings Bank of Finland (SBF)) with capital injection and issuance of guarantees. SBF's performing loans were sold whereas its NPLs were moved to a restructuring agency. • In 1993, the government intervened in STS Bank and issued a guarantee on bank liabilities to bolster (foreign) investors' confidence. 	<p><u>Banking System (total):</u></p> <ul style="list-style-type: none"> • 18.7% of loans were non-performing by end of 1993. <p><u>Insolvent Banks:</u></p> <ul style="list-style-type: none"> - Skopbank: accounting for 5.1% of total banking system loans; - SBF: (new entity in which 41 (solvent and insolvent) savings banks were merged in 1991). SBF accounted for 23.9% of total financial system assets; - STS Bank: accounting for 2% of financial system assets. 	<p><u>Type of AMC:</u></p> <ul style="list-style-type: none"> • Restructuring agencies. <ul style="list-style-type: none"> - Sponda: set up for Skopbanks real estate assets. - Solidium: set up to deal with claims on one industry group. - Arsenal: set up to manage problem loans and other loans of SBF and to liquidate its real estate assets and other holdings. Essentially used to wind down SBF. - STS: which assumed all NPLs and 'bad' assets of STS Bank. <p><u>Approach:</u> Arsenal:</p> <ul style="list-style-type: none"> • Stand alone entity. • In the end, centralized approach, as some of Skopbank's real estate assets and STS assets are transferred to Arsenal. <p><u>Areas of Activity</u> Arsenal:</p> <ul style="list-style-type: none"> • Credit Administration: granting new loans and guarantees, collection of receivables, corporate restructuring and legal consulting • Real Estate: Management, leasing and liquidation of property portfolio. Arsenal does not engage in construction management. However unfinished property development projects can be completed if it is probable that the overall result is better than through selling unfinished project. • Customer support in terms of corporate evaluation, acquisitions and corporate restructuring. • Treasury and capital market operations, by which group refinances and monitors the liquidity, maturity and interest rate management risks, and which also manages equity portfolio.
Ghana (82 - 89)	<p><u>Causes of Financial Sector Crisis</u></p> <ul style="list-style-type: none"> • Financial liberalization in the mid-1980s resulted in liquidity and solvency problems in the banking sector due to: <ul style="list-style-type: none"> - serious shortcomings in bank regulations and inadequate banking supervision; - deficient bank management and poor procedures and controls; and - massive devaluation and dismantling of protection barriers as part of a structural reform program leading to increased indebtedness of the corporate sector and reduced capacity to service its debt. • The heritage of accumulated enterprise losses following years of high inflation, macroeconomic instability and devaluation aggravated loan losses in the banking system. 	<p><u>Banking System:</u></p> <ul style="list-style-type: none"> • Level of non-performing loans amounted to C\$9 billion or 60% of total at end 1989. <p><u>Insolvent Banks:</u></p> <ul style="list-style-type: none"> • 7 out of 11 audited major banks were insolvent. 	<p><u>Type of AMC:</u></p> <ul style="list-style-type: none"> • Restructuring agency. <p><u>Approach:</u></p> <ul style="list-style-type: none"> • Stand alone entity. Centralized approach. <p><u>Areas of Activity:</u></p> <ul style="list-style-type: none"> • NPART's Operating Policies stated that: "Recovery should allow for reasonable work-out arrangements with existing debtors. Where work-out arrangements were not feasible or promising, NPART would dispose of the productive assets on a "going concern" basis. Liquidation sale would be undertaken only where efforts with sale on a "going concern" basis failed or appeared remote."

Annex Table 6: Main Characterization of Banking Sector Crisis and Type of AMC Employed

Country Example	Causes of Financial Sector Crisis/Resolution mechanism adopted by the government	Magnitude of financial sector crisis	Type and Structure of AMC set up
	<p><u>Resolution mechanism adopted</u></p> <ul style="list-style-type: none"> A large part of NPLs owed by public and private to 7 enterprises banks were transferred to NPART, a restructuring agency in exchange for government bonds. Advances to the government and SOEs were first offset against government loans and the rest was converted into equity. 		
<p>Sweden (91 – 94)</p>	<p><u>Causes of Financial Sector Crisis</u></p> <ul style="list-style-type: none"> Liberalization of financial sector in 1980s without appropriate strengthening of the regulatory and supervisory system. Led to lending boom which strained credit assessment and monitoring skills in banking sector and To protracted real estate boom (high investment in real estate also due to tax laws that favored borrowing over savings). Swedish economy deflated in 1990 and real estate bubble burst, high interest rates and recession increased loan losses to banks. Crisis for krona led to very high interest rates (up to 500%) and later to a substantial depreciation of the krona when it started to float. Both events undermined the capability of many borrowers to service their debt. <p><u>Resolution mechanism adopted</u></p> <ul style="list-style-type: none"> Government first dealt with the crisis on an ad hoc basis by merging Sparbanken with Swedbanken; intervening in Nordbanken and splitting bank into a good bank and an asset management company Securum. At end 1992, the government issued a blanket guarantee on bank liabilities and took over Gotha Bank, wrote its share capital down to zero and transferred NPLs to another AMC. Moreover, the government introduced a voluntary bank recapitalization plan which laid out conditions under which it would provide capital support for remaining banks in the system. (None of the remaining private banks made use of the support scheme). In 1993, Nordbanken and Gotha Bank were merged as well as their respective AMCs. 	<p><u>Banking system:</u></p> <ul style="list-style-type: none"> Financial system NPLs at end of 1992, 10.8 %. Crisis was considered systemic as five of the six largest banks were involved, which amounted to over 70% of banking system assets <p><u>Insolvent Banks:</u></p> <ul style="list-style-type: none"> Nordbanken and Gotha Bank, accounting for 21.6% of banking system assets. Sparbanken Foresta AB, accounted for 24% of banking assets <p><u>Financially weak banks:</u></p> <ul style="list-style-type: none"> Four major banks accounting for 60% of banking system assets 	<p><u>Type of AMC:</u></p> <ul style="list-style-type: none"> Restructuring Agencies. <ul style="list-style-type: none"> Securum: set up to manage NPLs transferred from Nordenbanken Retriva AB: set up to handle all non-performing assets of Gotha Bank Mandamus: set up to manage real estate assets and shares in operating companies taken over from ForeningsSparbanken <p><u>Approach:</u></p> <ul style="list-style-type: none"> Stand alone entities. Decentralized approach. Government set up separate AMCs for Nordbanken and Gotha Bank, Securum and Retriva, respectively; Private banks who needed Government assistance, they were required to set up their own AMC. Example: Mandamus. <p><u>Areas of Activity</u></p> <ul style="list-style-type: none"> Securum: <ul style="list-style-type: none"> Restructures NPLs including taking ownership position and controlling management of firms. Provide new loans to borrowers Trade securities. Liquidate nonviable companies. Retriva: <ul style="list-style-type: none"> Restructures NPLs including taking ownership position and controlling management of firms. Provide new loans to borrowers Trade securities. Liquidate nonviable companies. Mandamus: <ul style="list-style-type: none"> Manages real estate assets and shares in operating companies taken over by ForeningsSpar-banken and in conjunction with this, handle problem loans and workout loans.

Restructuring Agency:
Annex Table 7: Main Characteristics of AMC

Country Example	Ownership & Legal Structure of AMC	Governance Structure & Disclosure Requirements	Objectives of AMCs
<p>Finland (91 - 94)</p>	<p>Ownership:</p> <ul style="list-style-type: none"> Public. The Government of Finland owns 79% and the Government Guarantee Fund owns 21.1%. <p>Legal Structure:</p> <p>Arsenal</p> <ul style="list-style-type: none"> Limited joint stock company governed by the Finnish Government Act. Changed to limited public company in Feb. 1998, due to change in legislation which prescribed companies listed in Helsinki stock exchange to be set up as public companies. 	<p>Governance Structure:</p> <p>Arsenal:</p> <ul style="list-style-type: none"> Board of Directors consists of 2 members from the private sector and 4 members appointed by the MoF, the Ministry of Industry and the Prime Minister Overall, Operations are supervised by Government Guarantee Fund, State Audit Office and parliamentary State Auditors. Public Meeting appoints Senior Management and Board of Directors <p>Disclosure Requirements:</p> <p>Arsenal:</p> <ul style="list-style-type: none"> Publishes Annual report with audited annual financial statements. Website contains interim reports, key figures on company's capital and shareholders Monthly reports are also available to the public. <p>Independence of AMC:</p> <p>Arsenal:</p> <ul style="list-style-type: none"> Arsenal is managed by a professional management team. Its activities are overseen by a Board of Directors which consists of 4 members from Gov't sector and 2 members from private sector. The CEO was brought from the private sector. The organization follows legislation and is fully independent on daily decisions. 	<p>Objectives:</p> <p>Arsenal:</p> <ul style="list-style-type: none"> To manage and liquidate NPLs and other holdings, in an orderly manner and at a minimum cost.
<p>Ghana (82 - 89)</p>	<p>Ownership:</p> <ul style="list-style-type: none"> Wholly owned government agency <p>Legal Structure:</p> <ul style="list-style-type: none"> Government Agency set up in 1990, considerably much later after the crisis began. 	<p>Governance Structure:</p> <ul style="list-style-type: none"> Governed and supervised by a Board of Trustees consisting of representatives from the Ministry of Finance, the central bank, the chief administrator of NPART, an accountant and a private lawyer and three other experts (one from the private sector). The Board was responsible for formulating NPART guidelines and supervising its management. <p>Disclosure Requirements:</p> <ul style="list-style-type: none"> No activity nor financial statements were published. Annual audited financial reports were submitted to the Board of Trustees. Annual report on the management of NPART submitted to the Provisional National Defense Council. Financial reports were also submitted to the Ministry of Finance and Central Bank and the implementing agency for the World Bank's FINSACI. <p>Independence of AMC:</p> <ul style="list-style-type: none"> Government heavily involved in decision-making process as it dominated the Board of Trustees.. Moreover, head of NPART was a political appointee who was selected not on the basis of technical skills. 	<p>Objectives:</p> <ul style="list-style-type: none"> Restructure and recapitalize banks. Asset management activities was aimed at maximizing recovery value to reduce fiscal burden on the government

Annex Table 7: Main Characteristics of AMC

Country Example	Ownership & Legal Structure of AMC	Governance Structure & Disclosure Requirements	Objectives of AMCs
Sweden (91 – 94)	<p>Ownership:</p> <ul style="list-style-type: none"> • Securum/Retriva: Public ownership • Mandamus: Private ownership <p>Legal Structure:</p> <ul style="list-style-type: none"> • Securum/Retriva: Limited public companies governed under corporate law. • Mandamus: subsidiary of ForeningsSparbanken. 	<p>Governance Structure:</p> <p>Securum/Retriva:</p> <ul style="list-style-type: none"> • Board of Directors appointed by Ministry of Finance. Senior management appointed by Board of Directors. All members were from private sector except for one member of Board of Directors who was a MoF official. • Operations monitored by Bank Support Authority, which represents the Swedish State. • Market Committee consisting of representatives from various business organizations monitored projects' sound business practices to ensure credibility • Irregularity Committee established by Board of Directors to investigate any irregularities and verify cases of fraud <p>Disclosure Requirements:</p> <p>Securum/Retriva:</p> <ul style="list-style-type: none"> • Publishes annual reports with description of operations and activities of the year, and audited financial statements. In addition, interim (quarterly) reports are also made public. <p>Independence of AMC:</p> <p>Securum/Retriva:</p> <ul style="list-style-type: none"> • Publishes annual reports with description of operations and activities of the year, and audited financial statements. In addition, interim (quarterly) reports are also made public. 	<p>Objectives:</p> <p>Securum/Retriva:</p> <ul style="list-style-type: none"> • Recover maximum values of NPLs transferred to it. • Establish best practices for private banks. • Clean up of Nordbanken and Gota Bank. <p>Mandamus:</p> <ul style="list-style-type: none"> • Commercial

Restructuring Agency:
Annex Table 8: Legal Environment and Management of AMC

Country Example	Sunset Clause and if yes, was it honored	Broader Legal Environment in which AMC operated	Management of AMC and Quality and Remuneration of Staff	Funding of AMC
Finland (91 – 94)	<p>Arsenal:</p> <ul style="list-style-type: none"> The Group's operations are expected to continue until the end of the century. 	<p><u>Adequacy of bankruptcy and foreclosure law:</u></p> <ul style="list-style-type: none"> Legal environment is adequate regarding bankruptcy and foreclosure laws <p><u>Did AMC have any superpowers and if so what type of super-powers</u></p> <ul style="list-style-type: none"> No. 	<p>Arsenal:</p> <ul style="list-style-type: none"> Professionally managed. Private sector wage scale. No performance related wages. 	<p>Arsenal:</p> <ul style="list-style-type: none"> State provided Arsenal with FIM 22.8 billion in equity capital and has issued guarantees totaling FIM 28 billion to safeguard its funding. Moreover, Arsenal raised xxx in capital markets. Funding has been sufficient. Especially, Arsenal had sufficient equity capital to write down the loans that were transferred at book value.
Ghana (82 – 89)	<ul style="list-style-type: none"> Six years. NPART was to have been closed down by end Dec. 1995. On account of some slackening in the pace of recovery by 1995, and to enable NPART to wind up its residual operations and to make collections for COOP bank (not included in the 1990 transfer), its mandate was extended by 18 months. It closed in June 1997. 	<p><u>Adequacy of bankruptcy and foreclosure law:</u></p> <ul style="list-style-type: none"> Legal framework was satisfactory; however, application and implementation of the laws were appalling. Contract disputes could take 3-6 years to resolve. <p><u>Did AMC have any superpowers and if so what type of super-powers:</u></p> <ul style="list-style-type: none"> After NPART was established it became apparent that a backlog of court cases would hamper the disposition of assets and the tribunal was formed legally to circumvent the long delay if disposition was left up to the courts. Thus, a special judicial was set up outside of the court system which only became operational 1 and ½ years after NPART's creation. 	<ul style="list-style-type: none"> Head of agency was a political appointee who was not selected for his technical skills. He had no prior business experience. Internal problems arose due to the inexperienced timid, distracted leadership of NPART and its poor relationship with the Ministry of Finance and the central bank. NPART received extensive technical assistance under FINSACI for financing a team of expatriate experts, two of whom had previous experience with the U.S. RTC. These two experts became NPART's directors of Operations and Finance. With the locally recruited director of administration, NPART's middle management was stronger than its top administrator. Also, many of the staff were recruited from the banks. NPART had an attractive salary structure as it was exempt from the limits imposed on public sector wages. Staff were actually paid more than their counterparts in the private banks. 	<ul style="list-style-type: none"> Funding from proceeds in the blocked accounts of the Bank's adjustment credit (FINSACI), bilateral grants, proceeds from sale of acquired assets. To meet administrative expenditure, NPART initially received budget allocation for the first 2 years from the Government through the grants or loan accounts. NPART had problems with funding its operations in its early days resulting in delays in bringing NPART staff on board, acquiring computer hardware and software. With the backing of a World Bank's FINSAC I, the problem became less acute.

Annex Table 8: Legal Environment and Management of AMC

Country Example	Sunset Clause and if yes, was it honored	Broader Legal Environment in which AMC operated	Management of AMC and Quality and Remuneration of Staff	Funding of AMC
<p>Sweden (91 – 94)</p>	<p>Securum/Retriva:</p> <ul style="list-style-type: none"> Expected to operate up to fifteen years. Assets were sold faster than anticipated as property markets and economy as a whole recovered much faster. Closed down after 5 years 	<p><u>Adequacy of bankruptcy and foreclosure law</u></p> <ul style="list-style-type: none"> Legal environment was adequate regarding bankruptcy code and foreclosure laws. <p><u>Did AMC have any superpowers and if so what type of super-powers</u></p> <ul style="list-style-type: none"> AMCs had no special legal powers 	<p>Securum:</p> <ul style="list-style-type: none"> Professionally managed. Private sector pay scale including performance related bonuses. Generous severance packages were adopted to attract high caliber people. 	<p>Securum:</p> <ul style="list-style-type: none"> Received SEK 14 billion in equity and SEK 10 billion in loan guarantees. Nordbanken provided SEK 27 billion in the form of loans at favorable rates. <p>Retriva:</p> <ul style="list-style-type: none"> Received SEK 3.8 billion and SEK 3.5 billion in guarantees. In both cases, funding was sufficient.

Restructuring Agency:
Annex Table 9: The Asset Transfer Process

Country Example	Criteria for asset transfer and transfer price	Process of Asset Transfer	Amount and Sectoral Breakdown of Assets transferred to AMC
Finland (91 – 94)	<p>Arsenal</p> <ul style="list-style-type: none"> • <u>Criteria for Transfer:</u> All NPLs without exception. • <u>Transfer Price:</u> Transferred at book value. 	<p>Arsenal:</p> <ul style="list-style-type: none"> • In terms of credit administration, clients were initially assessed by outside consultants and classified into viable and non-viable. A client was considered to be viable if it could, through own activities and with temporary support, develop a profitable operation. Qualified clients would start a corporate restructuring program to increase client company's profitability in order to enable it to return to the ordinary banking system. • Arsenal assumed in 1993 real estate at a book value that was substantially higher than the market value at the time. To estimate the current market value, external surveyors were assigned to perform a complete real estate portfolio valuation in 1994, before process of management and liquidation took place. 	<p><u>Amount of total asset transferred as percentage of total banking system assets/banking system loans and percentage of GDP</u></p> <p>Arsenal:</p> <ul style="list-style-type: none"> • Gross value (1993): FIM 39.5 billion, or 5.2% of total banking assets (8.2% of GDP). • After write-downs, 28 billion or 3.7% of total banking assets (5.8% of GDP) <p>STS:</p> <ul style="list-style-type: none"> • Gross value FIM 3.4 billion, 0.51% of total banking assets (0.66% of GDP). <p><u>Sectoral Breakdown of loans transferred to AMC</u></p> <p>Arsenal:</p> <ul style="list-style-type: none"> • Real Estate: 33.7% • Client receivables: 41% • Assets under management and other assets:25.3% <p><u>Were any loans left in banks and if so amount and type (i. e. loans deemed unviable, corporate loans etc)</u></p> <ul style="list-style-type: none"> • No. Arsenal took responsibility for <i>all</i> non-performing loans and assets transferred from SBF.
Ghana (82 - 89)	<ul style="list-style-type: none"> • <u>Criteria for Transfer:</u> Nontransparent as there were no specific criteria developed. • <u>Transfer Price:</u> Book value of assets excluding accrued interest. A comprehensive due diligence exercise was not conducted on any of the assets subject to transfer to NPART. Specifically, the central bank restricted its efforts to validating the eligibility of claims and tracking movements, receipts and disbursements, interest and other charges within the accounts. 	<ul style="list-style-type: none"> • Central bank assumed the lead role in the acquisition process because NPART was not yet operational. • In theory, NPART evaluated and categorized enterprises as nonviable or potentially viable, the latter group being made candidates for a corporate restructuring program. However, categorization was done by N-part personnel and not via independent third party review. • Its recovery efforts were focused on the 250 largest accounts representing 89% of the total non-performing assets. • NPART screened those accounts for classification into 4 categories: foreclosure, sale, workout/ restructuring and write-off. 	<p><u>Amount of total asset transferred as percentage of total banking system assets/banking system loans and percentage of GDP</u></p> <ul style="list-style-type: none"> • About 13,000 accounts were transferred to NPART. • Loans transferred amounted to C50 billion equivalent to 50.8% of total outstanding loans and 6% of GDP. <p><u>Sectoral Breakdown of loans transferred to AMC</u></p> <ul style="list-style-type: none"> • Corporate loans from state owned and private companies across the industrial and service sectors. Some were backed by real estate, including houses, but most of the loans were collateralized by plant, equipment and machinery. <p><u>Were any loans left in banks and if so amount and type (i. e. loans deemed unviable, corporate loans etc)</u></p> <ul style="list-style-type: none"> • Yes.

Annex Table 9: The Asset Transfer Process

Country Example	Criteria for asset transfer and transfer price	Process of Asset Transfer	Amount and Sectoral Breakdown of Assets transferred to AMC
Ghana (82 - 89)		<ul style="list-style-type: none"> Following the classification, NPART assigned a recovery estimate, in percentage and amount to each individual account. As part of normal work-out activities, NPART's staff performed this function as they received extensive training from the expatriate experts on loan workout, asset appraisal, property inspections, etc.. However, its role in corporate restructuring was limited. 	
Sweden (91 - 94)	<p>Securum/Retriva:</p> <ul style="list-style-type: none"> <u>Criteria for Transfer:</u> Mainly size and complexity of loan: only loans over SEK 15 million were transferred, and they typically consisted of corporations with operations in several countries or complicated structures in terms of subsidiaries. <u>Transfer Price:</u> NPLs were transferred at book value. <u>Private AMCs:</u> NPLs transferred at market value, consisting of loans of parent bank. 	<p>Securum/Retriva:</p> <ul style="list-style-type: none"> Before assets were transferred to AMCs, they had to go through valuation process to assess true market value. One-off process, non-performing assets of Nordbanken & Gota Bank transferred to Securum and Retriva, respectively. 	<p><u>Amount of total asset transferred as percentage of total banking system assets/banking system loans and percentage of GDP:</u></p> <p>Securum:</p> <ul style="list-style-type: none"> Gross value: SEK 67 billion, 4.4% of total banking assets (4.6% of GDP). After write-down: SEK 50 billion 3.3% of total banking assets (3.4% of GDP). <p>Retriva:</p> <ul style="list-style-type: none"> Gross value SEK 45 billion or 3.0% of banking assets (about 3.1% of GDP). After write-down, SEK 19.5 billion or 1.3% of total banking assets (1.4% of GDP). <p><u>Sectoral Breakdown of loans transferred to AMC</u></p> <p>Securum:</p> <ul style="list-style-type: none"> Mostly real estate loans. Loans: 91.1%. Share portfolio: 6.2%. Real Estate: 2.7%. <p>Retriva:</p> <ul style="list-style-type: none"> Loans: 86.2%. Real Estate: 12.3%. Share portfolio: 1.6%. <p><u>Were any loans left in banks and if so amount and type (i. e. loans deemed unviable, corporate loans etc)</u></p> <p>Securum/Retriva:</p> <ul style="list-style-type: none"> All NPLs with assessed value under SEK 15 million, or of low level of complexity (i.e. mortgages, consumer credits) were not transferred to AMCs. Banks were left with a ratio of bad loans similar to the one prevailing in market.

Restructuring Agency:
Annex Table 10: Process of Asset Disposition

Country Example	From Debt Restructuring to Asset Sale	Number, type and amount of loans forced into bankruptcy, restructured	Assets sold and assets that remain on books of AMC (as % of total)
Finland (91 – 94)	<p><u>Was transfer a one-off process?</u> Arsenal: Transfer of assets was a one time event</p> <p><u>Criteria used for loan workout:</u> Arsenal: Loan goes through valuation process as in any regular bank. Viability is determined on a case by case basis. A client is considered to be viable if it can, through own activities and with temporary support, develop a profitable operation.</p> <p><u>Instruments applied (partial debt write off, debt-to-equity swap, change of maturity)</u> Mostly used debt-to-equity swaps for restructuring.</p> <p><u>Process of asset sale/disposition:</u> Arsenal used negotiated sales method.</p> <p><u>Purchaser of assets:</u> 100% domestic</p> <p><u>Accumulated losses/profits:</u> Arsenal: Losses had reached over FIM 18 billion by the end of 1997, from original transfer of assets worth 39.5 billion. This figure includes the acquisition of STS Ltd.</p> <p>STS: Before being acquired by the Arsenal Group, STS had incurred in losses of FIM 2.5 billion against total (face) value of assets originally transferred of about FIM 3.4 billion.</p>	<ul style="list-style-type: none"> • Of an initial portfolio of FIM 11.4 billion corporate and private clients in 1993, 69% had been forced into bankruptcy by June 1997 • 31% of initial portfolio had not been forced into bankruptcy. Of these 1.1 billion, or 9.8% of initial portfolio were returned to regular banking system 	<ul style="list-style-type: none"> • Arsenal: Total RE portfolio after write-downs was FIM 8.5 billion; by end 1997, Arsenal had sold FIM 5.9 billion, or 78.4%. • Market value of assets transferred amounted to FIM 28 billion. At end 1997, FIM 13 billion remained in Arsenal's portfolio, equivalent to 46.5 percent.
Ghana (82 - 89)	<p><u>Was transfer a one-off process?</u> Yes</p> <p><u>Criteria used for loan workout</u></p> <ul style="list-style-type: none"> • Original idea was to restructure enterprises that were classified as viable. Criteria for loan work-out: the default to the bank was not willful, capacity to revive and profitably operate (including managing) the enterprise was assured, market prospects remained good, necessary working capital and other required resources were available, conditions leading to the previous default or difficulties identified and properly addressed and recovery prospects remained good. • The Government commissioned a study to assess the magnitude and nature of corporate distress and recommend a project to facilitate the restructuring of potentially viable enterprises. The first phase of the study which reviewed a sample of 214 firms concluded that a majority of them had good prospects for viable operations if they undergo financial, technical and managerial restructuring. The second phase examined the alternative institutional arrangements for the restructuring and recommended the establishment of an investment bank to carry it out. However, two new private merchant banks opened in 1990 in addition to a previously existing Merchant Bank and thus the proposal was rejected. • In the end, enterprise restructuring became mired in political problems and assets were basically sold off. <p><u>Instruments applied (partial debt write off, debt-to-equity swap, change of maturity)</u></p> <p><u>Process of asset sale/disposition:</u></p> <ul style="list-style-type: none"> • Negotiated sales. NPART advertised the assets subject to foreclosures in the local papers upon which interested buyers approached NPART. <p><u>Purchaser of assets:</u> Domestic investors mainly and some foreign investors purchased the assets of those subject to foreclosures.</p>	<ul style="list-style-type: none"> • Initially, the staff had to determine the accuracy of the loan records. • As of April 1993, the resolution of loans of 203 enterprises with debts of C38.45 billion (65% of total NPART assets) was as follows: <ol style="list-style-type: none"> i. foreclosures for 94 firms with C14.5 billion (37.7%); ii. restructuring for 89 firms with C 12.9 billion (33%); iii. pay-offs at full/discouted value for 10 firms with C414 million; iv. write-offs for 3 firms with C1.45 billion; and v. other for 7 firms with C9.2 billion (23.9%). 	<ul style="list-style-type: none"> • By June 30, 1997 when it was closed down, NPART had recovered a total amount of C19.61 billion or 32% of its original portfolio of C59 billion.). • About C610 million were sold outright with concurrence of the debtor. (Equivalent to 1% of the total portfolio of C59 billion.)

Annex Table 10: Process of Asset Disposition

Country Example	From Debt Restructuring to Asset Sale	Number, type and amount of loans forced into bankruptcy, restructured	Assets sold and assets that remain on books of AMC (as % of total)
Ghana (82-89)	<u>Accumulated losses/profits</u> : NPART recovered a total amount of C 19.61 billion, equivalent to 0.33 on every Cedi.		
Sweden (91 – 94)	<p><u>Was transfer a one-off process?</u> Securum: Transfer of assets was a one time event. Retriva: Transfer of assets was a one time event. Securum/Retriva: Assets transferred to Retriva by Gota Bank, were acquired by Securum, by purchase of Retriva from the State for SEK 3.8 billion.</p> <p><u>Criteria used for loan workout:</u> Securum/Retriva: All assets were valued on a case by case basis. Cash flow analysis would determine if the asset was worth restructuring or liquidating. Exception for equitable treatment in this process: for cases where labor market considerations prevailed.</p> <p>Securum used three different divestment alternatives:</p> <ul style="list-style-type: none"> • Installment plans, with or without concession, depending on customer solvency. • Reconstruction plan, when business in question had a good chance of surviving. • Taking over of collateral. <p>In most cases, taking over collateral proved to be only financially viable alternative.</p> <p><u>Management of Assets:</u></p> <ul style="list-style-type: none"> • Asset enhancement, for example attempts to leave vacant space. <p><u>Instruments applied (partial debt write off, debt-to-equity swap, change of maturity)</u>: Mostly debt to equity swap.</p> <p><u>Process of asset sale/disposition</u>: When asset value could no longer be significantly enhanced through active management, and Securum was able to obtain a sales price that corresponded to its target value, it sold the asset.</p> <p><u>Purchaser of assets</u>: Securum/Retriva: Domestic and foreign (Breakdown NA).</p> <p><u>Accumulated losses/profits</u>:</p>	<ul style="list-style-type: none"> • In most cases, Securum took over collateral and did not restructure loans. 	<ul style="list-style-type: none"> • Securum/Retriva: Assets sold: SEK 57 billion or 86.3 of total assets. Assets remaining on books: SEK 9 billion or 13.6 of total assets, as of June 1997. These assets are presently held by Venantius AB.

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