



**Resolute
Asset
Management**

Setting up asset management platforms for REO portfolios

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- REO stands for “**Real Estate Owned**” by banks, acquired through enforcement (non-consensual) or debt for asset swaps (consensual)
- Real estate represents the underlying collateral for most of European banks’ NPL’s
- When NPL’s convert to REO, the bank moves from a passive lender to an active owner – most banks are not set up to manage large portfolios of REO
- REO assets are usually undermanaged and often require capital investment
- REO monetization represents both the recovery of value and the realization of loss

Why is REO management important?



- Real estate is one of the highest risk categories for banks, which are under increasing pressure to reduce risk-weighted assets (RWA's)
- REO management is an important tool in balance sheet **deleveraging** and **reducing RWA's**
- Effective REO management can improve both the **timing** and **value** of recoveries for banks with portfolios of real estate NPL's, ultimately improving their capital adequacy ratios (CAR)
- $CAR = (\text{tier 1+2 capital}) / RWA$



1. Accelerates balance sheet deleveraging
2. Reduces RWA's
3. Enables bank to control main source of recovery – improves PV of exposure
4. Prevents further deterioration of collateral
5. Provides more leverage in negotiation with borrowers – before repossession
6. Enables bank to pursue “collateral workout” approach – enforcement or consensual resolution



1. Market value vs. book value
2. Property condition
3. Onboarding – due diligence, lack of information
4. New investment – capex
5. Processes and procedures (decision-making)
6. Risk management

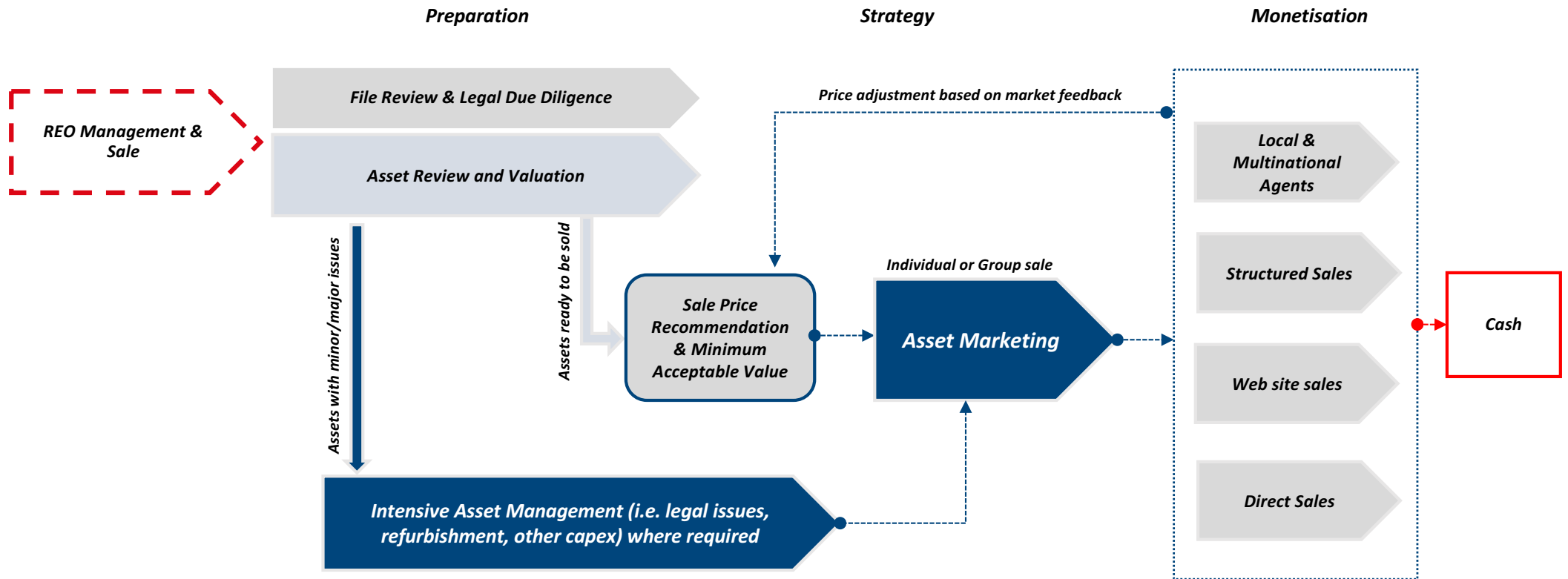


1. Legal and planning expertise
2. Buy-side perspective (investor, developer) → asset strategy
3. Local market knowledge
4. Leasing
5. Development
6. Deal structuring (JV's, financing, earn-outs, etc.)

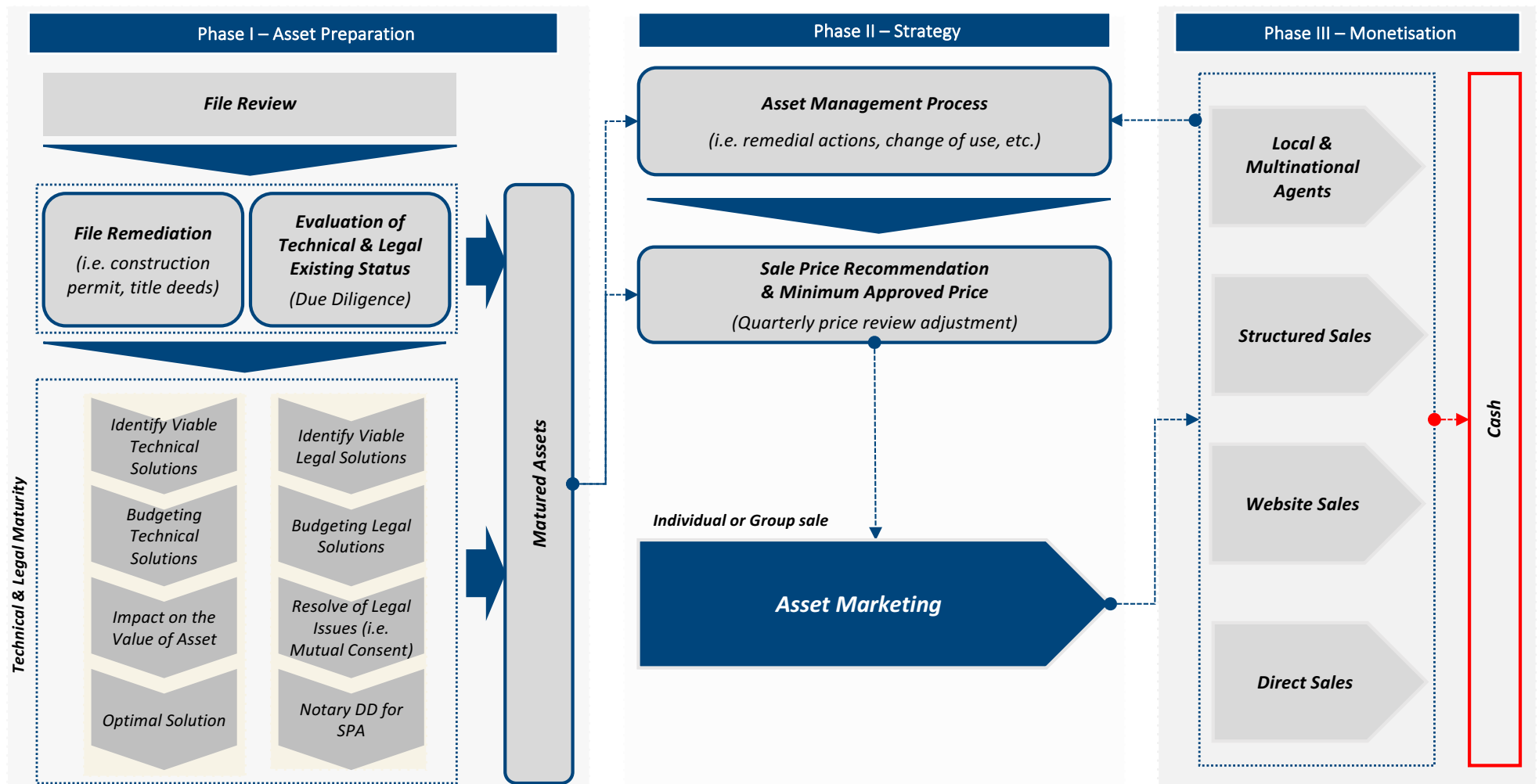


1. **Onboarding** – transferring ownership from borrower to bank or asset manager
2. **Property/facilities management** → value preservation:
 - security, insurance, basic maintenance, tenant relations, rent collection
3. **Asset management** → value enhancement:
 - business plan (asset strategy)
 - documentation, refurbishment, leasing, repositioning, etc.
4. **Monetization** → marketing and sale

REO management process



REO management process





FILE REVIEW & REMEDIATION	TECHNICAL/LEGAL MATURITY	ASSET MANAGEMENT	MONETISATION
<p>Actions related to assets:</p> <ul style="list-style-type: none">▪ Review of asset files and all relevant documentation in order to identify missing information▪ Remediation of asset files▪ Perform full technical and legal due diligence, including asset onsite inspections	<p>Technical and Legal maturity:</p> <ul style="list-style-type: none">▪ Determine optimal solution based on cost/benefit analysis▪ Identify viable solution▪ Prepare budget (fees & fines) and evaluate impact on value with regard to time and cost for each solution▪ Execute technical and legal maturity process	<p>Actions related to assets:</p> <ul style="list-style-type: none">▪ Asset inspection to determine market dynamics and identify actions to enhance asset's value▪ Proceed with the categorisation of the assets according their liquidity profile▪ Structure and develop investment products and "tailor-made" solutions▪ Suggest to the Bank tailor made solutions to increase the value of each asset (where applicable)	<ul style="list-style-type: none">▪ Identify and implement optimal marketing strategy for each asset▪ Determine the asset asking price and monitor offers received▪ Design and prepare marketing material▪ Develop sale channels and monitor their efficiency▪ Assign assets to agents (on exclusive and non-exclusive basis)▪ Approach multiple local and international investors▪ Coordination/Monitoring for the disposal of asset



REO holding structures allow for improved REO management while reducing RWAs and improving P&L performance

Objectives

- Create structures that reduce local regulatory capital burden
- Achieve significant regulatory capital and balance sheet efficiency through reclassification of REO to loan form
- Mitigate impact of “creditor” bidding rules in judicial auctions
- Mitigation of double transfer taxes
- Acceleration of conversion to REO to allow managed monetization
- Potential change of management responsibility

Considerations

- Local regulatory capital treatment of SPV
- Local regulatory treatment of the transaction(s)
- Potential cash funding requirement of credit bid
- Capital Requirement – RWAs
- Administrative, solvency, and tax costs of SPVs
- Control issues associated with regulatory capital relief
- Allocation of losses between the Bank and SPVs
- Accounting treatment



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