



FUND OF PROBLEM LOANS
ACQUISITION. MANAGEMENT. SALE.

EXPERIENCE OF SWEDEN IN NPL REGULATION

ACTIVITIES OF SECURUM

FINANCIAL CRISIS IN SWEDEN

Prerequisites for the creation of Securum

In the second half of the 1980s, the deregulation of Swedish financial markets led to significant credit expansion. As part of the financial system liberalization policy, the government lifted existing restrictions on lending, interest rate limits, and requirements to invest a certain portion of capital in government and housing bonds.

This led to the increased activation of the shadow banking system in the form of financial companies. These companies were primarily financed by banks, servicing the commercial real estate market and the private sector.

As a result of deregulation, banks and financial companies increased lending volumes and began to apply riskier lending methods, aiming to increase their market share, which in turn led to a credit boom.

Furthermore, the competition between banks and financial companies for market share in the credit market between

1985 and 1990 led to a rise in prices for residential and commercial real estate by more than twofold. At the same time, the Swedish government introduced a favorable tax regime for borrowing—thanks to generous tax deductions on interest payments, the cost of loans was extremely low, and at times even negative. This policy reflected in the growth of demand for loans among businesses and households. As a result, between 1986 and 1989, the total volume of lending in Sweden increased by more than 100%.

Weak regulation and supervision, as well as individual internal risk management practices, did not allow for the timely identification of excessive concentration of lending in the real estate sector. Ultimately, it was discovered that approximately two-thirds of all bank loans were related to the residential and commercial real estate sectors, including loans to developers and property management companies, land loans, and loans for commercial purposes secured by real estate.

FINANCIAL CRISIS IN SWEDEN

Prerequisites for the creation of Securum

The speculative bubble burst in the early 1990s. The Swedish government made changes to tax policy, introducing a 30% capital gains tax and sharply reducing tax deductions on mortgage interest rates. These measures put significant pressure on the overheated domestic real estate market, leading to a drop in demand for mortgage lending and a corresponding decline in prices. In 1990, several financial companies incurred significant losses, and in September, one of the large financial companies suspended payments, leading to a collapse in the securities market.

The subsequent rise in interest rates resulted in an even greater crash in real estate prices, bankruptcies of businesses, and a reduction in industrial production. The unemployment rate rose from 2% in 1990 to 10% in 1993. By the end of 1990, loan losses in the banking system had increased to around 1% of the total lending volume, which was two to three times higher than in

By the end of 1991, the losses amounted to 3.5%, and at the peak of the crisis in the last quarter of 1992, they reached 7.5% of the total loan volume, which was approximately twice the operating profit of the banking sector.

In 1990–1993, accumulated losses amounted to nearly 17% of loans. Sweden entered the crisis without a systemic framework for resolution and a clear regulatory basis for dealing with problem banks. Additionally, there was no deposit insurance scheme, which hindered effective crisis management.

Drawing mainly on the experience of the United States in resolving the savings and loan crisis, the Swedish authorities, in close collaboration with international consultants, developed a crisis resolution scheme consisting of three main components: 1) the provision of an unconditional guarantee on the liabilities of all banks, 2) a bank restructuring program, and 3) the creation of an Asset Management Company (AMC) Securum.

FINANCIAL CRISIS IN SWEDEN

Prerequisites for the creation of Securum

To administer the bank restructuring process, the Ministry of Finance established the Bank Support Authority (Bankstödsnämnden), which was responsible for evaluating all banks and providing state support to viable institutions. The Swedish financial crisis affected all local banks.

The resolution strategy was determined by the banks themselves—some managed the crisis independently, while others sought government support. Private banks did not sell assets to the state AMC due to the inability to agree on transfer prices.

Bank Names	Resolution Strategy
Handelsbanken and SEB – the largest private commercial banks	Recapitalization by shareholders; creation of their own "bad bank" as a subsidiary. Government support, apart from the general guarantee, was not sought.
Nordbanken – the main state-owned bank and the third-largest bank	Recapitalization by the government (14.2 billion Swedish kronor or ~2.4 billion USD in 1991-92) Transfer of "toxic" assets to Securum.
Gota Bank – the fifth-largest commercial bank	Recapitalization by the government in 1993 (20 billion Swedish kronor or ~2.6 billion USD). Merger of the "viable" portion with Nordbanken and the "toxic" portion (AMC Retriva) with Securum.
Första Sparbanken	Merger with 10 other smaller savings banks into Savings Bank Sverige.
Föreninsbanken	Government support, apart from the general guarantee, was not sought. Merger with the savings bank Sverige..

CREATION OF SECURUM

Powers and Independence of the AMC

Securum was established as a state-owned company to manage the problem assets of the state bank Nordbanken on January 1, 1993, with a capitalization of 24 billion Swedish kronor, or approximately 3.3 billion USD (1.4% of GDP). The majority of its 700 full-time employees came from Nordbanken.

Securum was not legally given a specific deadline for its operation. However, it was expected that the company would fully resolve the transferred distressed assets within 10-15 years.

Securum was not granted special legislative powers due to the presence of a sufficient legal and regulatory framework governing recovery and bankruptcy processes.

At the same time, the company's management was granted broad powers in terms of determining the resolution strategy for the transferred assets,

including the ability to decide on operational or financial restructuring to rehabilitate businesses.

Although the government was the 100% owner of Securum, it was decided to delegate responsibility to the board of directors, which primarily consisted of real estate professionals, with a small number of politicians and officials from ministries. Moreover, Securum's independence was strengthened by significant capital investment to prevent the company from requesting additional funding from the government.

Securum also established several subsidiaries to deal with specific types of assets, further protecting its operations from political interference.

ASSET PURCHASE

Valuation, Deal Mechanism

The portfolio transferred to Securum consisted of more than 3,000 claims on loans to 1,274 companies (of which 790 were limited liability companies, the largest being Nobel Industries). The book value of the assets was 67 billion Swedish kronor or approximately 10 billion USD, while the transfer price was 50 billion Swedish kronor or about 8.7 billion USD. Loans made up 90% of the portfolio, with the remaining portion consisting of stocks and real estate. Most of the transferred companies were insolvent.

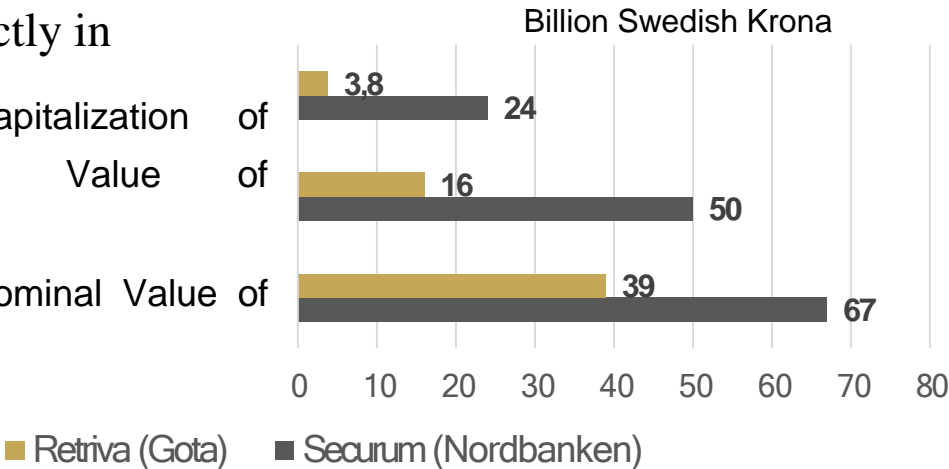
Securum did not make any payments for the transferred portfolio. Instead, the government recapitalized Nordbanken directly in

Capitalization of
Book (Transfer) Value of
Transferred Assets
Nominal Value of
Transferred Assets

exchange for the transfer of assets to Securum.

Asset and collateral valuations were conducted in the fall of 1992 with the support of external consultants and a major auditing firm. Due to time constraints, one-fifth of the assets were valued using models based on the valuation of other assets.

The documentation for the loans and collateral was reviewed by Nordbanken, and the process was overseen by an auditor appointed by the Nordbanken Board. The valuation methods used were approved by a committee that included representatives from both Nordbanken and Securum.



ASSET MANAGEMENT

Recovery, Realization, Merger with Retriva

Securum's strategy for resolving acquired assets was simple and effective.

Companies with low profitability, unpaid interest, low interest coverage ratios, and high debt-to-equity ratios were declared bankrupt.

More promising companies were reorganized through mergers, acquisitions, and sales. Additionally, measures were taken to increase productivity as well as adjust prices and quality of products. This approach led to a large number of corporate bankruptcies. Of the 790 debtor companies Securum worked with, about 70% were liquidated or declared bankrupt.

Securum operated in the distressed asset market with several AMCs, often dealing with the same companies or conglomerates, particularly Nobel Industries. Securum de facto became the largest real estate company in Sweden.

In May 1996, the distressed asset management subsidiary of the commercial bank Gota Bank, Retriva, was merged with Securum. The merged company owned more than 2,000 commercial real estate properties worth 15-20 billion Swedish kronor (around 2.2-2.9 billion USD), which accounted for 1-2% of all commercial real estate in Sweden.

The realization of real estate properties was carried out by the company in several ways:

- Sale of properties on an individual basis

- Pooling and selling properties in bundles

- Sale of companies specializing in real estate

The priority method of realizing individual properties and asset pools was private sales through direct negotiations with selected potential buyers.

ASSET MANAGEMENT

Asset Realization, Liquidation of Securum

Real estate companies were realized through initial public offerings (IPOs) on the Stockholm Stock Exchange (four deals) and the London Stock Exchange (one deal). Although these transactions brought significant profit to Securum, they accounted for less than half of the assets sold. The rationale for these transactions was the one-time disposal of a large number of properties through the sale of shares, which in turn allowed avoiding costs associated with further price declines in real estate.

Unlike many other AMCs, Securum did not sell real estate assets at auctions. This was due to the time constraints required to sell a large volume of assets in this way; the difficulty in creating suitable real estate pools to ensure maximum profit;

the risk of price declines due to the large volume of real estate entering the market at once; and the relatively small size of the Swedish market, which made it challenging to find potential buyers.

In September 1995, Securum's Board proposed liquidating the company by mid-1997. In this regard, the process of asset disposal was accelerated – most real estate sales occurred in 1996 (25%) and 1997 (60%). Parliament dissolved Securum in June 1997. By the time of its closure, Securum had sold 98% of its assets.

After its closure, Securum returned approximately 14 billion Swedish kronor or about 1.8 billion USD to the government.

The remaining assets, worth 2 billion Swedish kronor or 260 million USD, were transferred to two state holding companies – Vasakronan and Venantius, which continued the process of disposal.

RESULTS

Assessment of Activities

According to the World Bank, the restructuring model of Swedish banks in general and the operation of Securum in particular were quite effective.

The success of Securum was attributed to the following factors:

1. Securum was an integral part of a well-thought-out bank restructuring program aimed at supporting banks and businesses, rather than their owners.

2. The establishment of Securum as a regular commercial company played a crucial role in its success. Since the company was not subject to banking regulation and supervision, its activities were focused on maximizing profits. Furthermore, Securum was not tasked with social objectives. Its powers were strictly limited to resolving the assets of Nordbanken (and later Gota Bank). Securum employed professionals with extensive experience in asset management and sales. Securum's strategy was simple: registering property rights, increasing value, and selling.

3. At the time of taking over the assets, most borrowers had already been declared bankrupt or liquidated. This saved time in the debt recovery process.

4. The favorable legal environment in Sweden also contributed to the effective operation of the AMC. Loans could be transferred to Securum without the consent of the borrowers, allowing the company to seamlessly acquire all the rights of the former creditor. This enabled the company to carry out its activities promptly without waiting for the enactment of special powers or legal reforms. The material was prepared by the Corporate Development Department of JSC "FPC".

The following materials were used in the preparation:

Public Asset Management Companies,
Caroline Cerruti and Ruth Neyens, World Bank Group
Swedish AMCs: Securum and Retriva,
Mallory Dreyer, Yale University
Historical data for the conversion of
Swedish currency was taken from
www.poundsterlinglive.com.