

NPL TRANSACTIONS IN HUNGARY

INTRODUCTION

After a number of years of anticipation, 2016 saw a number of large non-performing loan sales in the Hungarian market.

Following an early and rapid adoption of market economics in the late 1980s and early 1990s, Hungary became highly integrated into the global economy and suffered badly during the global economic crisis. Levels of private debt denominated in foreign currencies were particularly high. The Hungarian government's response to the crisis involved a bank levy and a number of measures designed to protect local borrowers. These measures exacerbated the constraints on borrowers to access new finance for their existing indebtedness and left many commercial banks holding large portfolios of distressed debt.

The Hungarian National Bank ("MNB") has identified this distressed debt as a key concern for the banking sector and has taken a number of measures to ensure that local banks address this issue. Key to this approach was:

- the establishment of *Magyar Reorganizációs és Követeléskezelő Zrt.* ("MARK Zrt") to act as a purchaser of last resort for this distressed debt; and
- the provision of a statutory mechanism to facilitate the transfer of a portfolio of banking relationships without the requirement of consent from the individual borrowers.

2017 saw a series of high profile portfolio sales including:

- the sale by CIB Bank Zrt of a portfolio of commercial mortgage backed loans;
- the sale by Raiffeisen Bank Zrt of a portfolio of commercial mortgage backed loans;
- the sale by Erste Bank Zrt of a portfolio of residential mortgage backed loans.

Although a number of banks (eg Erste and Raiffeisen) are nearing the end of this process, large portfolios of distressed debt remain with banks such as CIB Bank and OTP Bank. We anticipate that these portfolios will be placed on the market in the near future – either directly or by MARK Zrt.

CLIENTS



Dr. Szabolcs Mestyán
Partner

szabolcs.mestyan@lakatoskoves.hu



John Fenemore
Partner

john.fenemore@lakatoskoves.hu



Dr. Attila Ungár
Partner

attila.ungar@lakatoskoves.hu

**Lakatos, Köves
and Partners**
1075 Budapest
Madách Imre út 14.
Tel: +36 (1) 4291300
Fax: +36 (1) 4291390
www.lakatoskoves.hu

CREATIVE | COMMITTED | CLIENT FOCUSED

LEGAL ISSUES

- **Due diligence** – A key element in any NPL acquisition is understanding the rights that are being acquired. Our market leading real estate and finance practices, LKT is in an ideal position to advise investors on the rights attaching to key loans and collateral in the portfolio.
- **Valuation, workout and enforcement** – In previous transactions our team has played a key role in evaluating enforcement and workout strategies for key assets to enable bidders to attribute value more accurately to such assets. Our experience in implementing such strategies post-closing allows us to provide practical and commercial advice on this point and facilitates swift implementation post-closing where this is required.
- **Regulatory and structuring** – Acquiring loans is a regulated activity in Hungary. Servicing loans and holding security also have Hungarian regulatory implications. Our team is familiar with the regulatory requirements and experienced in proposing structures which comply with such requirements in an efficient manner without unnecessary administrative burden.
- **Local knowledge** in dealing with borrowers, liquidators and other market participants is key to a successful workout strategy and foreign investors often look to work with a local partner. Our team is experienced in advising investors on vehicles and funding structures appropriate for investment in NPLs in Hungary and assisting investors and local partners find structures which offer appropriate protection and incentives for both parties.
- **Transfer procedure** – A considerable block to NPL activity was the requirement to obtain consent of the underlying debtors for certain transfers. In 2015, the Hungarian parliament amended the law on financial institutions to provide for transfers of rights and obligations between financial institutions to be sanctioned by the regulator without obtaining the consent of the underlying bank clients. Although far from perfect, this provision has eased the transfer of loans significantly. LKT played a key role in highlighting the need for such a mechanism. Our team is experienced in advising clients on the advantages and disadvantages of the regulatory mechanism and has advised on the largest transactions to be conducted under the regulatory mechanism and using existing provisions of the Hungarian Civil Code.
- **Tax** – LKT has internal tax capabilities and regularly advise on the tax implications of real estate and NPL transactions. Our team is valued by clients for its transactional experience and ability to provide clear and commercial advice on such transactions.

ABOUT LAKATOS, KÖVES AND PARTNERS

Lakatos, Köves and Partners (LKT) is a 9 partner, 40 lawyer full service commercial law firm based in Budapest, Hungary, with a predominantly international client base, offering cutting-edge know-how and matching innovative legal solutions to business needs. For many years the firm was Clifford Chance's office in Budapest, but since 2009 has been independent. LKT's market standing is reflected in top tier rankings in many areas including Banking & Finance, Corporate/M&A, Real Estate, Dispute Resolution, TMT and Tax. The firm has an extensive referral network of leading international law firms.

**Lakatos, Köves
and Partners**
1075 Budapest
Madách Imre út 14.
Tel: +36 (1) 4291300
Fax: +36 (1) 4291390
www.lakatoskoves.hu

CREATIVE | COMMITTED | CLIENT FOCUSED