



Twitter: @FTLex

Italian banks: bad loans, good business

Back to business as usual. In Italy that means cleaning up past mistakes in the banking sector. This is profitable work for specialists such as Banca Ifis which deal in bad debts. It announced yesterday its largest deal for non-performing loans ever, and the largest in Italy this year. The group is buying unsecured consumer loans from hedge fund Cerberus valued at €3bn.

Banca Ifis started out as a specialist lender, mostly factoring company receivables. A taste for risk attracted it to buying up domestic non-performing loans. Its optimism on debt prices coincides with Italy's economic recovery. Yet plenty of buying opportunities exist within the NPL market given the woes of state-controlled bank Monte dei Paschi di Siena. A government deal to sell MPS to UniCredit collapsed last month.

So far, Banca Ifis has timed purchases well. Cash collections from its NPLs in the second quarter hit a record €89m. Debts under moratoria, due to government-guaranteed protection, were €233m, or 70 per cent, lower than last year. This latest purchase has meant Banca Ifis has now achieved its portfolio target for this year of €25.2bn.

That compares to about €160bn of Italian loans under moratoria. These accounted for one-tenth of the total at the end of last year. The proportion of those that will be downgraded, most likely to be soon after the end of this year when moratoria expire, depends on growth. Loans to businesses make up the vast bulk of this cohort.

With real GDP growth of 4 per cent expected this year and next those prospects remain strong. Credit losses over that period are expected to be about 1 per cent, or the same as recent years. System-wide, the ratio of NPLs might peak at 10 per cent in 2022, thinks S&P. That is about half the peak in 2015 after the European debt crisis.

Italy is better placed to deal with this than it was. Expect outliers such as MPS to spook politicians but provide opportunities for Banca Ifis, Cerberus and other investors in Italian bad loans.