

What Makes a Good "Bad Bank"? The Irish, Spanish and German Experience

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Abstract

This paper examines the experience of three asset management companies (AMCs) or "bad banks" established in the euro area following the 2008 global financial crisis. Specifically, it studies NAMA, Sareb and FMS Wertmanagement (FMS). These AMCs were set up to purchase growing nonperforming loans on banks' balance sheets with the aim of their eventual disposal. The study seeks to identify factors that support an AMC's success. It also analyses the impact of the European regulatory framework, including the Eurostat rules, State-aid regulations and bank resolution rules, on the AMCs' design. It also reflects on the way recent changes to EU bank resolution rules now limit the involvement of State aid in AMCs. The study finds that the type of assets transferred and the macroeconomic environment are crucially important for successful asset disposals. The paper also focuses on additional success factors, such as clean asset documentation, a solid valuation process, efficient asset servicing, a strong legal framework and skilled staff. Though challenges remain, the three AMCs have contributed to banking sector stabilisation as they have been undertaken alongside bank restructuring measures. The financial backing of the authorities, decisive in the cases analysed, has however come at a fiscal cost.

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