Hoist Finance

Hoist Finance evaluates alternatives in response to SFSA's new risk weights for purchased defaulted assets

Following the European Banking Authority's (EBA) answer given in relation to Article 127 of the Capital Requirements Regulation (EU) No. 575/2013 (CRR), the Swedish Financial Supervisory Authority (SFSA) has on 18 December 2018 confirmed that it supports the interpretation by EBA as regards risk weights for purchased defaulted assets.

Article 127 of the CRR states that if a defaulted unsecured exposure is written-down by more than 20%, the risk-weight should be 100%, otherwise 150%. However, only write-downs made by the institution itself can be accounted for, not previous write-downs made by previous owners of the exposure. In practice, this means that Hoist Finance will need to apply a 150% risk weight on unsecured non-performing loans (NPL), compared to the practice of 100%, which has been in line with the previous model approved by SFSA. The new risk weight will have to be implemented with immediate effect.

Hoist Finance considers the new interpretation by the SFSA to be counterintuitive and in stark contradiction to the intended purpose of the CRR, and that the application may have an adverse impact on Hoist Finance's business.

If applying the new interpretation by the SFSA, the company estimates that the increase in risk weights would have reduced Hoist Finance's CET1 ratio, as of third quarter 2018, with 3.7 percentage points. This would have taken Hoist Finance to a CET1 ratio of 9.4% which is below the company's targeted range of 10.3-12.3%, but 1.6 percentage points above the regulatory requirements.

Hoist Finance is currently evaluating a number of alternatives available in order to mitigate the negative impact of the above-mentioned change. The company is also reviewing the implications on set financial targets in detail and the outcome of these reviews will be communicated in conjunction with the year-end report, 12 February 2019.

Hoist Finance also has an on-going dialogue with the SFSA and are prepared to work with the regulators to find mechanisms to avoid any unintended effects of new regulatory requirements, so that the practical application of CRR will be in line with the original purpose of risk differentiation, i.e. that the credit risk mitigation from a write-down should be reflected in a lower risk weight. In this perspective, it should not matter who does the write-down.

"Hoist Finance is among the most well-capitalized companies operating in the secondary market for NPLs. We are committed to maintain our strong position and to seize the interesting opportunities that we see in a growing market. It is important to note that the revised CRR interpretation does not affect the underlying risks associated with the NPLs acquired. We are confident that we will be able to implement the necessary measures to ensure that the real risk in our assets is reflected in the risk weights", says Klaus-Anders Nysteen, CEO at Hoist Finance.

To discuss the potential implications of the above-mentioned changes, Hoist Finance now invites investors, analysts and press to a telephone conference today 18 December at 11:00 (CET). The meeting will be held in English by Klaus-Anders Nysteen, CEO at Hoist Finance.

Details: https://financialhearings.com/event/11835

Questions can be asked via teleconference or in writing via the audio broadcast.

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About Hoist Finance

Hoist Finance is a trusted debt restructuring partner to international banks and financial institutions. We are specialised in serving banks in handling non-performing loans, and supporting individuals in becoming debt free. Through expertise and rigorous compliance we earn the banks' trust. Through respect, honesty and fairness we earn the trust of our customers. For further information, please visit hoistfinance.com.