Residual debt

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By Christian Geinitz

Hypo Alpe Adria has plunged the Austrian state of Carinthia into ruin, with debts of EUR 10 billion still unaccounted for. In Bulgaria, the Hypo "bad bank" is having sports yachts, Ferraris and silos collected from debtors.

The Bulgarian flag on the stern of the sailing boat is in tatters, falling apart like the entire country has been since the financial crisis. When the 47 foot yacht first set sail in 2008, hopes were running high on the Black Sea. Bulgaria had joined the European Union the previous year. In spite of ominous portents in Western Europe, here everyone still believed that the good times would continue and money was easily available. "2007 and 2008 were our best years," says Miroslaw Nikolow. "The rich – and those who believed they would soon be rich – were acquiring ships and moorings."

Nikolow, who owns a ship outfitting company in nearby Atiya, sits drinking beer and nibbling fried fish at the harbour bar in Sosopol, small cats weaving between his legs. A dog is dozing in the shade, and seagulls are circling around the abandoned boats. The pace is leisurely in the marina. It is still a few weeks before the season starts, but even in high summer there is less going on here than there used to be. Moorings are abandoned, and the biggest vessel here is a blue and white cruiser, which according to the people in the bar belongs to a rich functionary from Lada. Since the Crimean crisis, however, the Russians and Ukrainians have not been doing much sailing on the Black Sea.

At the end of the pier is the sailing vessel with the torn flag, with two other models from the same manufacturer moored alongside. Nikolow knows that these magnificent vessels cost between EUR 250,000 and EUR 300,000 when new; now, they can be had for EUR70,000 toEUR 113,000. The vendor is an Austrian resolution company, Heta Asset Resolution, based in Klagenfurt, which has recovered the boats from a defaulting debtor, a yacht dealer from Burgas, 30 kilometres further up the coast, who has run into financial difficulties.
Forced sales of this kind form the final act in the drama of the downfall of what was once Austria's sixth largest bank. Under the name of Hypo Alpe Adria, the institution previously operated as Carinthian state bank. Then it became more ambitious and expanded into South-Eastern Europe, only to fall flat on its face in the financial crisis. It had handed out huge amounts in loans without properly examining the risks involved, and suddenly these loans could no longer be serviced. In 2009, Bayerische Landesbank, which had in the meantime become the bank's owner, managed to sell it off to the Austrian government in Vienna in a bailout. Since that time, the central government has been trying to limit the loss involved.
This includes separating Hypo's good assets from the bad ones and selling them. In the Balkans, they went to a consortium consisting of the US investment company Advent and the Eastern European bank EBRD. The remaining assets – based on the "good ones into the pot, bad ones into the crop" principle – were pooled in the resolution company Heta, a collection point for bad loans and other difficult-to-sell assets.

The "bad bank" still has a balance sheet total of EUR 18 billion, which corresponds to 6 per cent of Austria's total economic output. In February, financial auditors discovered that there were up to EUR 7.6 billion unaccounted for on the assets side. Instead of injecting further funds as it had done previously, the Austrian government and the Financial Market Authority (FMA) decided that they would no longer service the outstanding debts of almost EUR 10 billion. They also set in train a process by which Heta would be entirely dissolved, probably resulting in a huge amount of debt relief, with the creditors (who include German banks and insurance companies) possibly losing half their money.

The final amount of the loss also depends upon Sonya Kolewa. In the Bulgarian regional company of Heta, this young woman heads the "Collection, Repossession and Remarketing" department, which means that she is responsible for collecting the collateral items from business transactions that have gone sour from the debtors concerned, and selling the assets on – the three vessels at Sosopol, for example.

Sonya Kolewa jumps lightly up onto the deck of the biggest of the three yachts, leaving her high-heeled shoes on dry land. Sweeping over the teak planks, she photographs every detail using her iPad, and then climbs down below: there are two cabins in the stern, a larger one in the bow, a dining table, sofa, bath and shower, kitchenette. In a cupboard there is a frisbee with a "Bacardi" logo, dating from a time when there was still something to celebrate on board. "Everything in good order," says 34-year-old Kolewa, "we can sell this."
It will be more difficult to find a buyer for the two speedboats, which also belong to Heta. They are standing jacked up in the outside area of Nikolow's business in Atiya, half way to Burgas. The bright orange catamaran gleams in the sunshine, 36 feet (11 metres) long, capable of doing 190 kilometres an hour. It could bring in EUR 220,000, but the market is small. Not many people would have the confidence to take on a 1,200 HP water rocket like this, and besides it is difficult to transport. The lorry trailer on which the boat rests has been specially made and is a "wide load" which can only be driven in convoy.

The model beside it is even faster: each of its two engines delivers 1,075 HP. Speedboats like this cannot travel for long distances on water, because they consume 400 litres of petrol an hour. Sonya Kolewa is therefore hoping to find a buyer from Turkey, whose border is only 70 kilometres down the coast. "Turkey is becoming an increasingly important market for us," she says, "particularly for luxury items."

Like the sailing yachts, the speedboats also previously belonged to a Bulgarian dealer. He obtained financing through Hypo, which operated leasing businesses on an exclusive basis in Bulgaria. Upon the expiry of the lease term, the businessman would have been able to take over full ownership of the boats. However, this was not to be, for the business got into difficulties with payments. After several deferments and formal warnings, Heta, as the leasing company, took possession and ownership of the boats and has since been trying to turn these collateral items into cash.

Maritime business forms only a small part of the asset realisation. Heta is also offering real estate, construction machinery, vehicles and industrial plant, in a coordinated process in 14 countries. This broadly based approach sets the Austrian company apart from other resolution companies such as the Munich-based FMS or Erste Abwicklungsanstalt from Düsseldorf, the bad banks of Hypo Real Estate and West LB. Another new aspect is that Heta offers its movable and immovable assets for sale on the Internet. The "Alpe Adria Asset Platform" lists almost 500 items; the "tripleA" in the address recalls, with involuntary irony, the good credit ratings enjoyed long ago by Hypo and the federal state that guaranteed it. Carinthia is on the brink of insolvency, because it has issued guarantees for bonds of the bank which it is now not able to honour. Its rating is so bad that Klagenfurt is only able to obtain financing on the capital market through the central government in Vienna.

Even if Heta were able to dispose of all the items listed on the Internet at the price asked, this would not even bring in EUR 170 million – a drop in the ocean compared with the debts, which amount to over EUR 10 billion. Since the start of the Internet campaign two years ago, the sell-off has only brought in EUR 55 million. The list indicates the kind of outlandish items the bank financed, and why these are proving so hard to sell. In Germany there is a circus for sale, including four tents, 16 caravans and four toilet trailers. The main focus of activities, however, was in the Balkans. It was there that the bank overreached itself, and it is there that it is trying to salvage what it can.

In Bulgaria it is doing so with a huge amount of commitment, although the task is not an easy one. “It is a bit like a clearance sale: everything must go, and at the best possible price within a determined period,” says the regional head of the bank, Julius Freiherr Grote. Until a few months ago he worked in the head office in Klagenfurt, then he decided he wanted to control the realisation process at close quarters. “I am very enthusiastic about how committed the Bulgarian team is,” says 42-year-old Grote.

Grote has come to the Heta warehouse near Sofia airport, a huge hangar with an outside area. This is where all the moveable collateral assets that Grote’s people are able to take possession of end up, except for the boats. Sonya Kolewa joins her boss and Lyudmil Stoitsev, who is responsible for the sale of machinery. A carwash business has set up operations nearby. Using a high-pressure washer, a worker is hosing down an excavator from a construction firm that has gone bankrupt. A new addition like this is cleaned, technically inspected and then valued by external experts, all at Heta’s cost. An expert report is written and a price suggested, and this forms the basis of the Internet offer.

The Heta operations centre is like a cross between a car dealership and a scrap yard. Skips are parked next to wheeled loaders and tractors, a clapped-out bus couldn’t make it under its own steam and had to be towed here. In spite of this it has found a buyer, thrown in with a lorry. “You have to do deals and create packages,” says Sonya Kolewa, “sometimes it’s like a bazaar in here.” The astonishing thing is that there is a potential buyer for almost everything: for an old switchboard that belonged to a bankrupt paper cup factory, for an automated machine for blowing glass bottles, for ten cement silos laid out side by side like fallen warriors. “We can sell most of this stuff, it just depends on having the right contacts,” says the man in charge of selling machinery, Stoitsev. He is standing in front of a chain-driven monstrosity with conveyor belts, which turns out to be a sieving plant for the mining industry for separating sand and gravel. If bought new it would cost EUR 250,000. Stoitsev would be happy to get 90,000. He has spent his entire professional life working for leasing companies and financing machinery. He joined Heta because it offered far greater volumes than elsewhere. “My job is extremely varied. I can learn a lot here for later on.”

“Later on” is a key concept for Heta employees. Specifically, it means “in three to five years" – this is the period of time set by the new CEO, Sebastian Prinz von Schoenaich-Carolath, for the winding down of the company. By that time, all assets must be sold and the staff dismissed. Schoenaich-Carolath himself has a contract up to the middle of 2018. While motivation among the staff at the head office in Klagenfurt suffers as a result of the fact that the employees are supposed to be making themselves superfluous to requirements, there is no trace of this feeling in Bulgaria.

“I have been with Heta for three years, which is longer than I planned,” says Sonya Kolewa. “With the experience I am gaining here I will be sure to find a new job.”This young woman studied Arabic, spending time in Damascus, then worked at the Egyptian Embassy in Sofia. Her English is also excellent. She found industry more exciting than the diplomatic circuit, and therefore switched to Bulgaria’s biggest bakery chain. She worked her way up to sales manager level before the offer came to join Heta. “I used to sell bread, now I sell boats. I can’t wait to find out what comes next!”

Her manager is similarly optimistic. “Our work here has an expiry date of a few years, as has the entire Heta company. Our daily work and our continuing training are enhancing our professional profiles,” says Grote. He has been involved in corporate restructuring for thirteen years, moving to Hypo Alpe Adria in 2011, when it was already in serious difficulties. “The resolution business is on the up,” says Grote, “since the financial crisis, this kind of knowledge is increasingly sought after.”

The CEO of the resolution company, Schoenaich-Carolath, takes the same view. Prior to working for Heta, he supported the Ulmer and Berliner Volksbanks, and wound down parts of Kölner Bank. His most recent job was the resolution of the Polish subsidiary of DZ Bank. He says that it is not only “bad banks” that are currently separating off toxic assets on a massive scale, but also healthy banks, with assets to the tune of EUR 100 billion being offered this year in Europe alone.

In Sofia, the prospect of such amounts seems as distant as the Heta head office in Klagenfurt. Grote still has 40 employees, and that number is dwindling. The company recently moved to a smaller office. The superfluous shelves, movable storage containers and desks are stacked up in a corner of the warehouse at the airport. These too will be sold, every lev and every euro counts. Near the furniture, five identical Mitsubishi Colt cars are parked.The doors are adorned with the logo of a holiday complex for golfers. Heta had financed its cars until the instalments dried up. Now the bank is selling the cars at EUR 13,000 a piece.

The grey vehicles are in good condition, which is not always the case. Some distance apart stands a black Mercedes without an engine. The lessee had removed it and sold it before the repossession team got there, reports Sonya Kolewa with a shake of her head. She and her people do not collect the collateral items themselves; they have placed that job with an external company. One of the most difficult tasks is actually locating the vehicles. Not infrequently, the debtors have hidden them or sold them on, or, as they put it, “lost” them. Even cars that have been involved in an accident are collected by Heta, while others are brought in by the police because they have been stolen or involved in other crimes. These include a black BMW X6, whose doors are covered with white police stickers.

The models whose status is not clear are identified at the Heta warehouse by the absence of number plates. The stylish Audi R8 in the middle, for example. It can reach a speed of over 300 kilometres an hour – new, it would cost almost EUR 200,000. Even in times of crisis there are obviously enough buyers in poverty-stricken Bulgaria. It is less than three weeks since Sonya Kolewa sold the finest car in the failed Austrian bank’s discount collection – a bright red Ferrari.

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