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Recommended Citation
Stewart, Christopher J., "Would a Big Bad Bank Blow the Real Estate Problems of Spain Down?" (2012). In the Balance. 9.
https://engagedscholarship.csuohio.edu/inthebalance/9

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WOULD A BIG BAD BANK BLOW THE REAL ESTATE PROBLEMS OF SPAIN DOWN?

CHRISTOPHER J. STUART†

On November 20, 2011 Spain elected Mariano Rajoy, of the conservative People’s Party, as prime minister. During his campaign he claimed that “cleanup and restructuring” of the banking system in Spain was his primary concern. Rajoy pledged to adopt a program to fund Spain’s recovery by increasing the amount of available credit. With the current financial troubles in the Eurozone, reviving Spain’s banks could be a daunting task for the newly elected prime minister. The BBC reports that “Spain is[a] much more indebted or leveraged country than Italy” when aggregating all debts including government, corporate, financial, and institution debts.

To fix the financial issues of Spain, Rajoy must conquer the seemingly insurmountable amount of troubled real estate loans held by the country’s lenders. The Bank of Spain stated that half of the €308 billion of real estate loans are classified as troubled. These problems seem to stem from the decreasing values of Spanish homes, which have decreased by 28 percent on average since April 2007. Pablo Cantos, a managing partner of MaC Group who advises Spanish banks on risk, claims that about €30 billion of real estate held by Spanish banks are “unsellable.”

The future for Spanish real estate assets remains bleak as Taurus Iberica Asset Management—a Spanish mortgage servicer—reports that financial institutions have foreclosed on 200,000 homes and the foreclosures will rise to 600,000 homes due to

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2 Id.


5 Id.

6 Id.


8 Id.
the increase in unemployment.9 Fernando Acuan Ruiz, managing partner of Taurus Iberica, stated that Spain has 1 million new homes that will not be consumed until 2017.10

A solution to Spain’s bank problems may lie in facilitating a “bad bank” according to some analysts.11 Creating a “bad bank” would relieve banks of their toxic real estate assets and the bad bank would attempt to sell the assets as prices improve.12 Fernando Fernandez, IE professor and former International Monetary Fund economist, believes that a bad bank is the only cure to clean up bank balance sheets and revive the flow of credit.13 A bad bank worked well in Ireland because it restored confidence to investors.14 However, creating a bad bank in Spain with the current financial troubles of the euro zone could be a disaster according to analysts.15 One London-based analyst believes that the additional debt that will encumber Spain will be more than it can afford.16 Prior to the election, Rajoy did not support a bad bank program, but sources have stated that Rajoy “has asked for at least two papers from academics on how to create” a bad bank.17 While which solution Rajoy will ultimately employ to resolve the Spain’s financial issues is uncertain, the current financial outlook remains very grim.

9 Id.
10 Id.
11 See source cited supra note 3.
12 Id.
13 Id.
15 Id.
16 Id.