## CLOSURE TIMES FOR BAD BUSINESS LOANS

The recovery times for bad business loans vary significantly, according to the main loan and debtor characteristics and to the efficiency of both the institutional context and banks' NPL management policies.

A study carried out using Central Credit Register (CR) data on business loans first classified as bad between 2005 and 2016 measured the amount of time that elapsed between a loan's classification as a bad loan and it no longer being reported as such by the creditor bank (closure time).[1] The study was limited to unsold bad loans, which account for about three quarters of loans first classified as bad during the reference period, and takes into account certain characteristics, including: the loan's size and whether it is secured by collateral; the debtor firm's legal form, sector, the province where its head office is located and whether it borrows from more than one bank; and the size of the creditor bank.[2]

The results indicate that, on average, closure times are longer for larger loans, for loans to firms with relationships with more than one bank and for those to construction firms (by more than 10 per cent compared with manufacturing and service firms). Furthermore, closure times vary greatly in relation to the head office of the debtor firm: other characteristics being equal, the bad loans of firms headquartered in one of the five provinces with the shortest closure times, all in the North of Italy, are closed in about half the time it takes for firms headquartered in the five provinces with the longest closure times, all in the Centre and South (see panel (a) of the figure). These geographical differences are consistent with the data on the average length of bankruptcy and foreclosure proceedings.[3]

The study also shows that closure times varied significantly during the reference period: they increased with the rapid rise in corporate bankruptcies and in-court recovery proceedings, peaking in the two years 2011-12; they then began to fall, returning close to their initial levels in 2016 (see panel (b) of the figure). The estimated median closure times are 5.4 years for 2005, 11.9 in the two years 2011-12, and 5.7 years in 2016.[4] The reduction observed towards the end of the reference period may have been partly due to the more active NPL management

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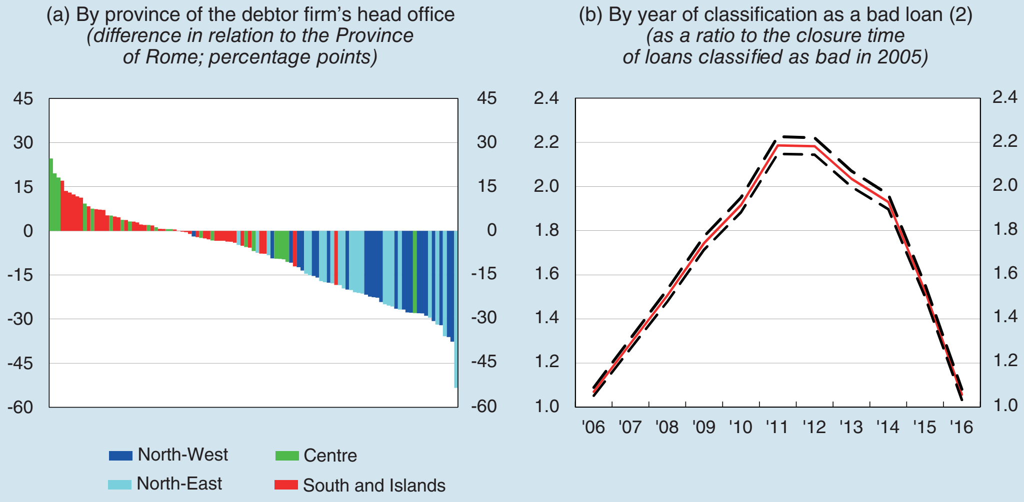
[1] E. Bonaccorsi di Patti, C. Demma, D. Dottori and G. Micucci, 'Bad loan closure times in Italy', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), forthcoming. A creditor bank stops reporting a bad loan to the CR when it records a write-off following the completion of a recovery procedure or sale; in a small number of cases, the bad loan is no longer reported without it being recorded as a loss or as having been sold.

[2] The estimates are based on a survival model in which, in the reference period, the observations move from the initial state, defined as the loan's first classification as a bad loan, to the final state, defined as the closure of the bad loan; for sold positions, the closure is deemed unobservable.

[3] Cerved, 'La durata dei fallimenti chiusi e delle esecuzioni immobiliari in Italia nel 2016', 2018 (only in Italian).

[4] The expected median length is the period of time that corresponds to a 50 per cent probability that a bad loan is closed before or after that length of time.

**Closure times for bad business loans** (1)




Source: Based on Central Credit Register data.
(1) Estimated by a log-normal parametric model of duration. – (2) The dotted lines represent the 95 per cent confidence intervals.

practices adopted by banks and the measures aimed at improving the efficiency of the judicial system.[5]

[5] S. Giacomelli, S. Mocetti, G. Palumbo and G. Roma, 'Civil justice in Italy: recent trends', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 401, 2017.