

# Ministry of Finance

## *Sale & Lease Back Organization (SLBO) Debt Settlement and Provision of 2<sup>nd</sup> Chance Law 4738/2020*

*Key features and Tender process overview*



June 2021

# Table of contents

- 1** Background and key features
- 2** Sale & lease back mechanism process
- 3** Tender process overview



## Background and key features [1/3]

### Framework's objective

The new legal framework introduces a **holistic approach to insolvency legislation** in Greece.

It enables households and businesses to settle debts, towards the **State, social security funds, banks, servicers and other private creditors**.



The new legal framework, has been introduced through the bill titled “Law for Debt Settlement and provision of Second Chance” as voted in October 2020 (Law 4738/2020). The 3 key areas regulated by the Law include the following:

a. **Preventive** (pre-insolvency) restructurings, including:

1. a digitized-automated Out of Court Work-Out (OCW) process and
2. a prepack business recovery process, subject to court ratification.

b. **Bankruptcy proceedings** with distinct processes designed and tailored to address various debtor categories, based on the size of the bankruptcy estate (but not the legal form of the debtor).

c. **Vulnerable individual debtors** have the ability to benefit from social policies introduced:

1. the State subsidy of loans encumbered with the primary residence as well as
2. the State allowance for primary residences (under Law 44722/2017), being paid to the Sale and Lease Back Organization, if the latter had acquired the primary residences under Law 4738/2020, as partial rent discharge.



The Hellenic Republic is conducting an international tender process to identify the private interested party that will undertake the duties and responsibilities of the Sale and Lease back Organization (SLBO), through a concession agreement



For further details please refer to new law 4738/2020, “Law for Debt Settlement and provision of Second Chance” and the invitation for Expression of Interest



## Background and key features [2/3]

The purpose of the Sale and Leaseback Organization (SLBO) is to protect vulnerable debtors' primary residence from enforcement actions, while enabling them to establish an arrangement with the SLBO for leasing their primary residence, including a buy back option.

In this context, eligible debtors will have the option to transfer their primary residence to the SLBO and lease it back for a period of up to 12 years.

### 1. Eligible Debtors Perimeter

Eligible perimeter consists of debtors that are considered “**vulnerable individuals**” based on specific criteria:

- ✓ Family **income**, also based on the number of household members
- ✓ Tax value of **immovable assets** of the debtor and its family members
- ✓ Value of **deposits or other financial assets** of the family

*For further info on the eligibility criteria please refer to Law 4472/2017 (Article 3) & JMD 792/2019 (Article 4) found here:*

[http://www.keyd.gov.gr/ryumish\\_ofeilvn\\_pkatoikia/](http://www.keyd.gov.gr/ryumish_ofeilvn_pkatoikia/)

### 2. Debtors Application Process Overview

Vulnerable individuals have the option to submit an application, only if one of the following events is triggered:

- ✓ Debtor **bankruptcy** declared by Bankruptcy court
- ✓ **Commencement of enforcement against the primary residence** by secured creditors with mortgage or mortgage prenotation on the primary residence

The exercise of the option requires the consent of any co-owners and refers only to the primary residence of the debtor

### 3. Sale and Leaseback Organization Selection

A **legal entity in the private sector** will be appointed by the State as the exclusive SLBO operating in Greece, following the completion of the international open **tender process** and based on the following key selection criteria, as per the tender document:

- ✓ The level of risk undertaken by the State (Hellenic Republic)
- ✓ Proof of adequate financing to assume the investment
- ✓ The offered discount to the vulnerable debtor on the repurchase price of the main residence at the end of the lease
- ✓ The amount of rent required in comparison to the one set by the Law 4738/2020 (article 220),
- ✓ Provision of extension of the lease to the debtors for a pre-defined period following the completion of the 12-year period, in case they do not repurchase (if requested by the debtor)
- ✓ Additional, on top of what is prescribed by Law 4738/2020, tolerance for debtors that have defaulted on rent payments

The duties and responsibilities of the preferred interested party will be governed by a **Concession Agreement**.



## Background and key features [3/3]

In particular, the Sale and Leaseback Organization (SLBO) will undertake the responsibility for the acquisition and lease back of the debtor's primary residence as well as the sale back of the property to the debtor based on predetermined conditions.

An overview of the main guidelines that govern the acquisition and buy back of the main residence by the debtors as well as an overview of the key applicable lease terms are provided below.

### 4. Acquisition of the Primary Residence

The acquisition price will be paid by the SLBO either to the **bankruptcy administrator** or the **auctioneer**, depending on the triggering event, as follows:

- ✓ In case of bankruptcy the acquisition price of the primary residence shall be equal to the **commercial value** of the property stemming from a **certified valuation conducted by an independent valuator**
- ✓ In case of enforcement process where the first **bid price** exceeds the valuation by at least 15%, then the price will be the lowest between a certified valuation from an independent third valuator and the first bid price

The SLBO acquires the property free from any encumbrance or third party claims

### 5. Lease Terms (incl. rent subsidy)

The lease period will be up to 12 years, where the following apply:

- ✓ Vulnerable individuals are eligible to receive a **State subsidy** towards debtor, which will be used to pay the rent to SLBO (*subsidy varies from 70 to 210 euro based on predefined eligibility criteria as set in Law 4472/2017 (Article 3) & JMD 792/2019 (Article 4)*)
- ✓ The initial **lease rate** will be calculated based on the average mortgage interest rates according to Bank of Greece, plus the spread offered as part of the tender process, adjusted annually based on the main refinancing operations (MRO) rate of European Central Bank (ECB)
- ✓ The **lease agreement may be terminated** if the debtor defaults on 3 monthly instalments and fails to remedy this within 1 month, in which case the debtor loses the right to buy back the property

### 6. Buy-back of the Primary Residence

If the debtors have paid all the leasing installments, then they maintain the option to buy-back the property as follows:

- ✓ **At the termination of the 12-year lease period** by paying the market value of the property, minus any discount offered by discretion of SLBO (as agreed upon during the tender process)
- ✓ **At any time during the 12-year lease period** by paying the market value of the property, plus the net present value of all future rent instalments until the end of the 12-year lease period, minus any discount offered by discretion of SLBO (as agreed upon during the tender process)

The buy-back price must reflect the commercial value of the asset at the time of the transaction



# Sale & lease back mechanism process

## 1. Triggering event

Triggering events include:

- ✓ Declaration of bankruptcy of debtor by bankruptcy court or
- ✓ Commencement of enforcement against the primary residence by secured creditors with mortgage or mortgage prenotation on the primary residence

## 3. Acquisition of primary residence by the entity

The Sale & Leaseback Organization (SLBO) acquires the primary residence paying the acquisition fee:

- ✓ to the bankruptcy administrator up to 6 months following the declaration of bankruptcy, and more specifically the last working day of the semester following the public announcement of the bankruptcy decision at the Electronic Solvency Registry or
- ✓ to the auctioneer by no later than five (5) working days before the auction date

## 5A. Buy-back or default during the lease period

- ✓ The lease agreement may be terminated if the debtor defaults on 3 consecutive monthly instalments and fails to remedy this within one month. On termination the debtor loses the right to buy back the property and the SLBO does not have the obligation to lease the property to the debtor (i.e. maintains the right to rent or sell the property to whoever it decides)
- ✓ At any time during the lease period, the debtor may buy back their residence at a price that must reflect the commercial value of the asset at that time, plus the present value of any instalments that may still be pending until the end of the leasing period, minus any discount offered by discretion of SLBO (as agreed upon during the tender process)

## 2. Submission of application by the debtor

Applications are not accepted if submitted after more than 60 calendar days from the date of the publication of bankruptcy decision in the Electronic Solvency Registry or from the date of the warrant of seizure

## 4. Initiation of the lease period

The debtor may opt to lease their primary residence for a period of up to 12 years, while vulnerable debtors are eligible for State subsidy

## 5B. Buy back at lease period termination

At the termination of the lease period, the debtor may buy back their residence at a price that must reflect the commercial value of the asset at the time when the right will be exercised, minus any discount offered by discretion of SLBO (as agreed upon during the tender process)



# Tender process overview

