Vulture Funds Role in Europe Revealed

Here is the statement issued on Nov. 7 by Marco Zanni and Marco Valli of the Finance and Monetary Committee of the EuroParliament. The statement has been covered by the Rome newsletter Osservatore Politico Internazionale.

The U.S. Supreme Court decision in favor of US hedge funds NML Capital and Elliott Management, causing Argentina's default, sets a very dangerous precedent. However, there has been too little attention to the effects that such a decision could have in Europe and Italy. Not many know that the same predatory vulture funds that have gotten a green light from the Obama Administration and the Supreme Court of the United States to foreclose on the nation of Argentina have been quietly positioning themselves over the last 18 months to buy up tens, if not hundreds, of billions of dollars of bad debt on the books of Europe's leading banks, for 3-4 cents on the euro, to then turn around and use their corrupt court systems to forcibly collect full face value.

Paul Singer's NML Capital, and its parent, Elliott Management—the lead vulture fund in the current assault on Argentina—over the course of 2013 bought up at least EU1.3 billion in non-performing loans from Europe's largest bank, Banco Santander, and associated Spanish financial institutions such as Bankia. The total cost to Elliott was a mere EU50 million, less than 4% of the face value of the loans. Elliott also purchased the Spanish "debt recovery" firm Gesif at the end of 2013, to convert it into its operational base in Spain for the expected surge in "business" in 2014.

The vulture funds are buying up large quantities of distressed debt, not only in Spain but also Italy. Last year, Unicredit sold almost EU1 billion (EU950 million) worth of bad consumer loans to Cerberus for less than the market value of EU80 million. Currently, Unicredit is selling its entire bad loans unit, Unicredit Credit Management Bank (UCCMB), with a portfolio of over EU40 billion, accounting for 32% of the entire Italian market of non-performing loans.

It is reported that former Goldman Sachs/Merrill Lynch, and now UBS banker Andrea Orcel, will broker the sale. Orcel is the man who advised Monte dei Paschi di Siena in the purchase of Antonveneta Bank from Santander. There are six vultures bidding for the deal: Apollo Global Management, Fortress Investment Group, Lone Star Group, Cerberus, a division of the Italian Cerved Group, as well as a group participated by Goldman Sachs, Deutsche Bank and TPG Capital.

If on one side these operations help the major banks pass the stress tests which the European Central Bank is currently conducting, on the other side speculative funds would have an enormous power in their hands; imagine the consequences if some European court of justice takes a decision similar to the U.S. Supreme Court on Argentina. If speculative funds were recognized as having the right to be reimbursed for the nominal value of credits they bought for a dime, and the right to seize debtors' assets, what would be the consequences from an economic-social standpoint?

To prevent the continuation of such speculation on the life of citizens, it is necessary to discuss not only at the European, but at global level, rules on state bankruptcies. In fact, there is no precise legislation that regulates defaults of states (and therefore of sovereign debt), as is the case for companies and individuals (i.e., Chapter 11 in the U.S.). We will propose for Europe a negotiation of a law or a mechanism with clear and precise rules that regulate state bankruptcies, like those regulating individual and firm bankruptcies.