

Research on the status quo and solution strategy of bad financial assets

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Abstract: This paper examines the current situation and resolution strategies of non-performing financial assets. Firstly, the definition and classification of non-performing financial assets are provided and discussed in depth through case studies. The scale and trend of global non-performing financial assets and their impact on the financial market are analyzed, and the situation of non-performing financial assets in different countries and regions are compared. Next, the root causes of the problem of non-performing financial assets are revealed through cause analysis, including macroeconomic factors, internal factors of financial institutions and regulatory policy factors. Then, the resolution strategies of non-performing financial assets are studied, including the methods and tools for non-performing asset disposal, and policy recommendations are proposed through successful case studies. Finally, the risk management of non-performing financial assets is discussed, including risk assessment and monitoring measures.

Keywords: Non-Performing; Financial Assets; Status; Resolution

Introduction

In recent years, the problem of non-performing financial assets has become increasingly prominent worldwide, posing a major challenge to financial markets and economic stability. Non-performing financial assets are loans, bonds and other assets that cannot be repaid on time as a result of borrower default, economic downturn or other factors. The existence of non-performing financial assets not only causes losses to financial institutions, but may also trigger financial risks and adversely affect the financial system as a whole. The causes of the non-performing financial asset problem include macroeconomic factors, internal factors of financial institutions and regulatory policy factors. In-depth analysis of the root causes of non-performing financial asset problems can provide theoretical basis and practical guidance for the formulation of resolution strategies. Analyzing the successful cases of non-performing assets disposal can summarize the effective solution strategies. And putting forward corresponding policy suggestions can formulate effective policies and measures for financial institutions and governments to promote the stability of financial markets and sustainable economic development.

1. Definition and classification of non-performing financial assets

Non-performing financial assets are loans, bonds and other assets that cannot be repaid on time as a result of borrower defaults, economic downturns or other factors. The main characteristic of non-performing financial assets is that their value is impaired or unrealizable, posing potential risks and losses to financial institutions and economies. Non-performing financial assets can be classified according to their nature and origin. One common way of classification is by asset type. According to this classification, non-performing financial assets can be classified into non-performing loans, non-performing bonds and non-performing assets held by non-performing asset management companies (AMCs), etc.

Non-performing loans are loans that cannot be repaid by the borrower at the agreed time and amount. Non-performing loans can arise due to poor business operation of the borrower, decline in income due to economic recession, or malicious default of the borrower, etc. Non-performing loans not only mean unrecoverable funds for financial institutions, but may also lead to capital loss and increased credit risk.

Non-performing bonds are bonds in which the issuer is unable to repay the principal and interest on the bonds on time. The risk of non-performing bonds is usually closely related to the credit quality of the bond issuer. When a bond issuer's credit quality declines or faces operational difficulties, the value of the bond is affected and investors may not be able to recover the principal and interest on time.

A non-performing asset management company (AMC) is an institution established by a government or financial institution specifically

to acquire and dispose of non-performing assets. an AMC typically acquires non-performing assets from banks or other financial institutions and reduces the financial institution's risk exposure by disposing of or transferring these assets. NAMCs are established to improve the asset quality of financial institutions and reduce the impact of non-performing assets on the financial system.

In addition, non-performing financial assets can be classified according to their risk level. According to this classification, non-performing financial assets can be divided into subordinated non-performing assets and recoverable non-performing assets. Sub-prime non-performing assets refer to assets whose value has been severely damaged and it is difficult to recover them to normal levels. Recoverable non-performing assets are those whose value has declined to a certain extent, but there is still hope that they can be recovered through reasonable disposal and management.

By studying the definition and classification of non-performing financial assets, we can better understand the nature and characteristics of the problem of non-performing financial assets, and provide theoretical basis and practical guidance for formulating solution strategies and taking corresponding measures.

2. Analysis of the current status of non-performing financial assets

The current state of non-performing financial assets presents some complexity and variability globally. According to the International Monetary Fund (IMF), the size of global non-performing financial assets has declined from the peak triggered by the financial crisis in 2008, but remains quite large and poses important challenges to financial markets and economies.

According to IMF data, the size of global non-performing financial assets will be about \$2.6 trillion by the end of 2020. These non-performing financial assets are mainly concentrated in developed economies and emerging markets, especially in the European and Asian regions. Among them, the European region has the largest scale of non-performing financial assets, accounting for nearly half of the global total. The size of non-performing financial assets in Asia is also larger, mainly concentrated in countries such as China, India and Japan. With the recovery of the global economy and the reconstruction of the financial system, the scale of non-performing financial assets has declined in some countries and regions. However, the risk of growth of non-performing financial assets still exists due to factors such as slowing global economic growth, intensifying trade disputes and financial market volatility. In particular, against the backdrop of the current economic recession and financial market uncertainty brought about by the new crown epidemic, the pressure on the growth of non-performing financial assets may further increase.

Non-performing financial assets can put pressure on the profitability and capital adequacy of financial institutions, which may lead to credit contraction and financial market instability. Second, non-performing financial assets will also have an impact on the stability of the overall financial system, which may trigger financial risk contagion and systemic risk. In addition, the existence of non-performing financial assets may also weaken the ability of financial institutions to support the real economy and hinder the sustained growth and development of the economy. Developed economies usually have better financial systems and regulatory mechanisms and are better able to deal with the problem of non-performing financial assets. While in some emerging markets and developing countries, the problem of non-performing financial assets may be more prominent, and the scale and risk of non-performing financial assets may be greater due to the imperfection of financial markets and regulation.

The current situation of global non-performing financial assets shows some complexity and differences. The large scale and fluctuating trends of non-performing financial assets pose important challenges to financial markets and economies. Different countries and regions face different challenges and situations and need to adopt effective resolution strategies and measures to defuse the impact of the non-performing financial asset problem.

3. Resolution strategies and practical examples of non-performing financial assets issues

(1) Market-based disposal

Market-based disposal refers to the transfer of non-performing assets to market participants through auctions, competitive bidding or public offerings. This approach can effectively introduce market forces, realize the superiority and inferiority of non-performing assets, and

improve the disposal efficiency and asset recovery rate. For example, the U.S. subprime mortgage crisis that broke out in 2008 led to a large number of non-performing real estate loans. In order to solve this problem, the U.S. government established the Real Estate Mortgage Corporation (Fannie Mae) and the Real Estate Mortgage Corporation (Freddie Mac) to acquire and dispose of non-performing real estate mortgages through a market-based approach. These companies purchase non-performing assets from financial institutions, provide liquidity support, and sell or transfer non-performing assets through the market. This move has contributed to the stability and recovery of financial markets.

(2) Disposal transfer

Disposal transfer refers to the transfer of non-performing assets to specialized non-performing asset management companies (AMCs) or investors. An AMC is an institution established by the government or a financial institution specifically for the acquisition and disposal of non-performing assets. By transferring non-performing assets to AMCs, the burden of financial institutions can be reduced and professional efforts can be concentrated on disposal and management. For example, China faced a large number of non-performing loans in the early 2000s, and in order to deal with these non-performing assets, the Chinese government established four major asset management companies (four major AMCs). These companies acquired the banks' non-performing assets and disposed and managed them through a market-based approach. By negotiating with debtors to restructure, transfer or liquidate non-performing assets, China's AMCs have effectively reduced the burden on financial institutions and promoted the healthy development of the financial market.

(3) Asset management

Asset management refers to the optimization and restructuring of non-performing assets to improve their value and liquidation capacity. This can be achieved by negotiating with debtors to restructure, transfer or liquidate non-performing assets. For example, when Italy faced the financial crisis, it established specialized asset management agencies to negotiate with debtors and promote the recovery of financial markets and the economy by restructuring, realizing and liquidating non-performing assets. These asset management agencies acquired non-performing assets and facilitated asset recovery and economic recovery by working with debtors to reschedule debt repayment.

(4) Financial System Reforms

Financial system reform includes measures to strengthen regulation and risk management, and to enhance the governance and internal control of financial institutions. By establishing sound regulatory mechanisms and risk management systems, the generation and spread of non-performing financial assets can be prevented and controlled. For example, after the 2008 financial crisis, financial regulation was strengthened globally and a series of financial system reform measures were introduced to improve the stability and risk-resilience of financial institutions.

(5) Risk management

Risk management includes measures for risk assessment, risk monitoring and risk prevention. By assessing and monitoring the risks of non-performing financial assets, risks can be detected and responded to in a timely manner to prevent the expansion and spread of non-performing financial asset problems. For example, some financial institutions have established a sound risk management system before the emergence of the non-performing financial assets problem, and timely warn and dispose of non-performing financial assets through reasonable risk assessment and monitoring.

In summary, the resolution strategy of the non-performing financial assets problem can effectively solve the non-performing financial assets problem. Financial system reform and risk management, on the other hand, are the keys to prevent and control the problem of non-performing financial assets. The implementation of these resolution strategies requires the joint efforts of the government, financial institutions and regulators to develop and implement appropriate policies and measures with specific situations.

4. Conclusion

Non-performing financial assets are loans, bonds and other assets that cannot be repaid on time as a result of borrower defaults, economic downturns or other factors. The resolution strategies for non-performing financial assets include measures for non-performing asset disposal, financial system reform and risk management. The problem of non-performing financial assets can be effectively resolved through market-based disposal, disposal transfer and asset management. Financial system reform and risk management, on the other hand, are the

keys to prevent and control the problem of non-performing financial assets. The implementation of these resolution strategies requires the joint efforts of the government, financial institutions and regulators to formulate and implement appropriate policies and measures with specific situations. Resolving the problem of non-performing financial assets is crucial to maintaining the stability of financial markets and promoting sustainable economic development.

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