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Purchase Price of Sound Institutions' Assets under Article 53 of the Financial Revitalization Law

Government of Japan: Deposit Insurance Corporation

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Purchase Price of Sound Institutions' Assets under Article 53 of the Financial Revitalization Law

 Print

Date: January 11, 2002

Deposit Insurance Corporation
Resolution and Collection Corporation

1. Types of assets purchased(Article 2 of Financial Reconstruction Commission Notice No.2,Mar.4,1999[amended by Financial Services Agency Notice No.2,Jan.11,2002])

- (a) In principle,loans to debtors classified as bankrupt,de facto bankrupt or in danger of bankruptcy as defined in Article 28,Paragraph 3 of the Financial Revitalization Law
- (b) Suspense payments,interest receivables,accounts receivables etc.from debtors such as described in(a)

2. Purchase price

(1) Fundamental concept

The Financial Revitalization Law has recently been amended on the basis of the“Priority Reform Program”of the Government unveiled on Oct.26.2001.In order to speed up disposal of nonperforming loans,greater flexibility is now to be introduced into the formula for assessing their price,with bad loans to be purchased from sound financial institutions at “market value”(a price worked out by a rational method).

(2) Purchase price of total claims

Purchase price = total value of the price of individual claims

(3) Price of individual claims

The price of claims that is expected to recover from future cash flow in a certain period of time is assessed in the same manner as generally practiced in the market,i.e.the discounted cash-flow method(abbreviated below as the DCF method):The present value of cash flow of the expected future recovery is calculated by discounting with the discount rate below mentioned.

3. Actual method of assessing price

(1) Basic steps

- (a) Analyze debtor's current state
- (b) Formulate a hypothetical scenario(bankruptcy,bankruptcy within a certain time frame,survival etc.)
- (c) Compute total value of repayments based on projected future cash flow over a set period
- (d) Set discount rate(taking into consideration such factors as risks affecting future recovery,asset management cost,carrying costs etc.)
- (e) Convert(3)above into present value using the discount rate
- (f) Determine purchase price

(2) Claims recoverable by disposing of collateral

If,during the process of assessing price according to the DCF method,it is projected upon formulating the hypothetical scenario as per(2)above that collateral can be applied to repayment of a claim,the projected amount recoverable by disposing of that collateral is treated as expected future cash flow.In computing the projected amount recoverable by disposing of collateral in this fashion,the following formula may be used as well.

- Projected amount recoverable by disposing of collateral = assessed value of collateral residents' security deposits, key money etc. pertaining to the property in question -senior mortgages and other liens - value of claims with prior right of seizure
- If the collateralized value or the amount of the loan is less than the projected amount recoverable by disposing of the collateral, that figure (the collateralized value or the amount of the loan) is treated as the projected amount recoverable.
- See the Appendix for basic approach to valuing collateral.

(3) Unsecured claims of zero net value with no prospect of recovery

Such claims will basically be valued at zero. However, in order to assign a purchase price for transaction purposes, a uniform rate of ¥1,000 will as a rule be paid for financial institutions whose debtors total assets are without value.

4. Miscellaneous

(1) Benchmark date for purchases

(a) Negotiated purchases

Benchmark date for negotiated purchases are as a rule to take place four times a year. Financial institutions will be notified as soon as the purchase schedule (benchmark date, date purchase to be made etc.) for FY2002 and beyond is decided.

Feb. 28, 2002 will serve as the benchmark date for assessing the purchase price of claims scheduled for purchase in March 2002. Value of loans etc. will be assessed as of the benchmark date.

We will accede to requests from financial institutions to consult individually should it be considered necessary.

(b) Purchase by tender

We will consult individually with financial institutions to decide the benchmark date.

(2) Purchase expenses (negotiated transactions)

Outsourcing costs and other expenses incurred directly up until time of purchase will be charged separately.

(3) Prior consultation

The Resolution and Collection Corporation and Deposit Insurance Corporation are willing to talk on occasion with financial institutions that wish to consult beforehand about such matters as specific cases including loans related corporate restructuring.

[Appendix]

Basic Approach to Valuing Collateral

1. Collateral in the form of real estate

(1) Collateral in the form of real estate will be valued using an external appraiser etc. as follows:

(i) The external appraiser computes the "standard price."

(ii) Based on, say, the results of an on-site survey, which may be conducted as necessary, price for a quick sale is calculated as a ratio—generally 1-0.7—of the "standard price" depending on the attributes of the property.

(iii) If it is deemed necessary to consider factors impeding disposal of the property not taken account of in Steps (ii) and (iii) above, a further amount—generally 10%—is deducted from the price.

(iv) Any expenses that it is anticipated may be incurred in disposing of the property (e.g., the cost of land survey) will be subtracted from the price worked out in Steps (i)-(iii) above.

(2) Collateral in the form of real estate that is not subject to external appraisal (the external appraisal may be omitted for real estate that fails to meet certain standards, e.g., if the number of properties involved is considerable and there are constraints of time, or if the cost of the appraisal could surpass the value of the real estate) will as a rule be valued based on the assessed value used by the financial institution in question.

(3) Collateral in the form of real estate for which application for auction has been made will be valued at either the minimum sale price, if such a floor has been set, or the assessed value as computed according to the steps above, whichever is less. If notice has already been provided that the property has no net value, it will be valued at zero.

2. Collateral other than real estate

The assessment value of collateral other than real estate that has a market value will be valued at market value minus the cost of disposal. The value of collateral other than real estate that has no market value will be rationally estimated in accordance with the amount that can be recovered by disposing of it.

Please direct inquiries to:

Controlling Department of Expanding Business Functions

Business Planning Division

The Resolution and Collection Corporation(RCC)

6th Floor, Nakano-sakaue Sunbright Twin Bldg.

2-46-1 Honcho, Nakano-ku, Tokyo 164-0012

Fax.03-3299-7434

Planning and Management Division

Financial Reconstruction Department

Deposit Insurance Corporation

9th Floor, Shin-Yurakucho Bldg.

1-12-1 Yurakucho, Chiyoda-ku, Tokyo 100-0006

e-mail: inter-info@dic.go.jp