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Legal Expenses for Different Loan Asset Classes and Workout Strategies in Italian Non-performing Loans

Overview

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Non-performing loan (NPL) workout costs in Italy vary by asset class and workout strategy. Estimating legal expenses and other external costs is important when estimating bank risk parameters like loss given default, for the valuation of non-performing loans or when assessing alternative workout strategies. Below we analyse four asset classes – unsecured consumer loans, residential mortgages, unsecured corporate loans, and real estate-secured corporate loans – across common workout strategies. We provide estimated legal expenses and court procedural costs as a percentage of the recovery cash flow (i.e. percentage of actual gross recovered amounts). All estimates are based on market research and compared to loan level performance data on selected GACS NPL securitisations. We compare expected expenses reflected in the original and updated business plan projections with actual expense ratios at the latest available observation point (mostly in Q4 2025). The data include loans with an original gross book value of about EUR 20 billion with 300,000 loans. As noted previously, court driven workout strategies have higher expenses than voluntary arrangements, but the observed variability between estimated expenses and actual incurred expenses is high for both in court and out of court strategies.

1. Market Background

The Italian NPL market has matured to one of the most industrialised markets in the European Union. This structural maturation is evidenced by the dramatic reduction in the gross NPL ratio of significant Italian banks, which plummeted from a peak of approximately 17.0% in 2015 to roughly 2.3% by mid-2025. However, beneath these top-line figures lies a complex recovery machine where the friction

of legal expenses and court procedural fees remains a critical variable for investors, servicers, and regulators alike.

The Italian legal system for credit recovery is historically characterised by significant delays, which directly amplify the cost of workout procedures. While the gross book value (GBV) of legacy bad loans (*sofferenze*) has been largely cleared through massive disposal programs aided by the Garanzia sulla Cartolarizzazione delle Sofferenze (GACS) scheme, approximately €300 billion in total NPEs remain in the market, including those held on the books of specialised investors who acquired them from banks. For these holders, the efficiency of the workout strategy is of utmost importance (Accuria 2024).

Under International Financial Reporting Standards (IFRS 9), the valuation of these assets depends on the discounted sum of expected future cash flows, net of the direct costs incurred during the recovery process. These costs, including attorney fees, court-appointed expert appraisals, and property maintenance taxes, rank senior in the priority of payments for securitisation structures, meaning they are satisfied before any principal or interest is paid to noteholders.

The efficiency of credit recovery in Italy is governed by a framework that has been subject to multiple reforms, most notably the significant amendments to the Bankruptcy Law and the Civil Procedure Code adopted in 2015. The objective of these reforms was to halve the duration of bankruptcy procedures and significantly shorten foreclosure timelines. Despite these efforts, the Italian judiciary still performs below the OECD average, with foreclosure on real estate collateral often exceeding six years and full bankruptcy procedures frequently lasting over seven years.

The current market environment, characterised by higher interest rates, has introduced new complexities. Inflation has driven up the cost base of servicers, while higher rates have increased the break-even price for real estate owned (REO) strategies. Furthermore, the evolution of the market toward Unlikely to Pay (UTP) and Stage 2 exposures has shifted the focus from simple liquidation to sophisticated restructuring and loan curing (Accuria 2023). These proactive strategies, while potentially yielding higher recovery rates, often involve front-loading legal and advisory expenses that must be carefully balanced against the probability of return to performing status (Accuria 2025b).

2. Unsecured Consumer Loans (Individuals)

Unsecured consumer NPLs (e.g. personal loans, credit cards) have small loan sizes and no collateral. Recovery efforts focus on out-of-court settlements (e.g. discounted payoffs and payment plans) or

simple legal enforcement (obtaining a payment order and wage garnishment), since there is no property to foreclose. Personal bankruptcy has historically been rare in Italy, so most in-court resolutions involve enforcement against income or assets rather than formal insolvency proceedings.

Out-of-Court / Discounted Payoff (DPO): Creditors often resolve consumer NPLs through voluntary settlements or restructuring, which keeps costs low. Legal expenses are negligible (perhaps just documentation fees), and there are no court fees. The Accuria AI Research Agent suggests that extra-judicial strategies like DPOs are less costly than judicial routes, often totaling less than 2% of recoveries for minor legal advisory costs.

In-Court Enforcement (e.g. garnishment of wages or bank accounts): If borrowers do not settle, the lender may obtain a court injunction to seize part of the debtor’s income or assets. This involves some legal fees (lawyer and filing fees) but is cheaper than lengthy court cases. Costs might range around 5–10% of amounts recovered in typical cases. Notably, wage garnishments tend to be cheaper than full judicial proceedings. Court procedural fees (filing, service of process, etc.) are usually minimal (a few hundred euros, often 1% of the claim). Figure 1 shows the cumulative legal expenses consistently above 5% measured as a percentage of total gross cash flow for unsecured loans to private individuals classified as out-of-court which in our data includes court injunctions and wage garnishment, but excludes foreclosures or bankruptcies.

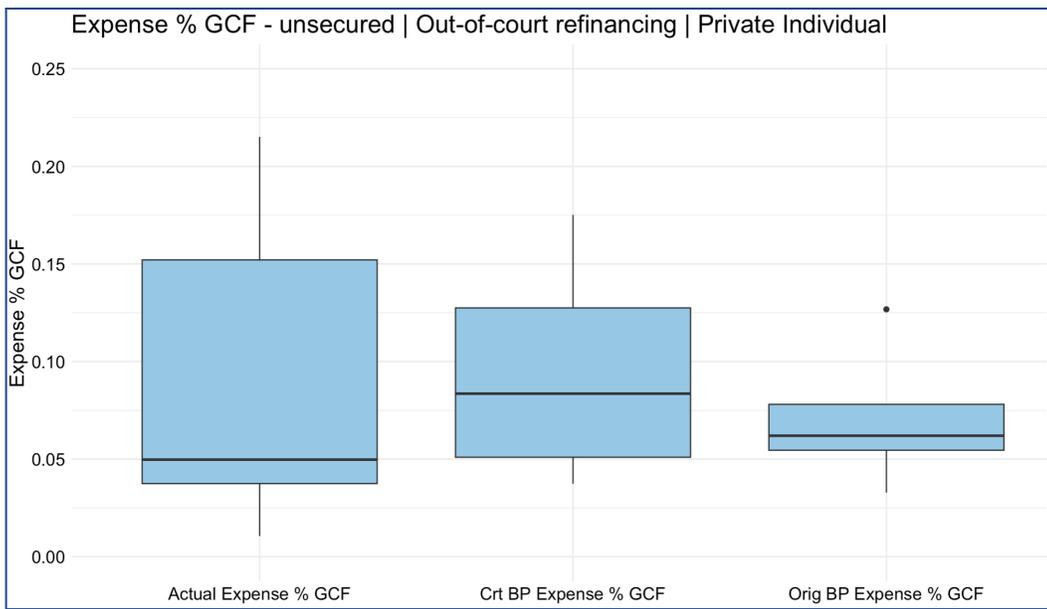


Figure 1: Legal and other external workout expenses as a percentage of gross cash flow (GCF) based on original business plan (Orig BP) and updated current business plans (Crt BP) and actual expenses incurred. The sample includes unsecured loans to private individuals with a workout strategy classified as out-of-court. Source: Accuria.

Bankruptcy: Italy’s formal consumer insolvency process (introduced in the 2010s) is used infrequently. When it does occur, most of the estate is consumed by higher-ranking claims and proceeding costs,

leaving unsecured creditors with very low recoveries (on average only 12% recovery for unsecured creditors in liquidations). The data from the GACS points to a range of 5% to 10% for unsecured individual borrowers in bankruptcy. Our evidence that legal expenses are consistently higher for individuals in bankruptcy than other strategies is not compelling and the data instead point to a very similar expense range (FSB 2024).

Table 1 – Unsecured Consumer Loans: Typical legal and court costs as % of recovery.

Workout Strategy	Legal Expenses (% of GCF)	Court Procedural Costs (% of GCF)
Out-of-Court (DPO)	Expected to be low 0–2% – e.g. attorney fees for drafting agreements, but GACS data show material expenses >5%.	0% (no court involved)
In-Court Enforcement (Garnishment)	5–10% (lawyer fees for obtaining judgment; lower cost than full trials)	1–3% (court filing, service fees)
In-Court Bankruptcy	5–10% (substantial insolvency legal fees, trustee fees) – often erodes recoveries	5–7% (court and trustee costs often paid first from estate)

3. Residential Mortgages (Individuals)

Residential mortgages are secured by homes, so foreclosure processes dominate in-court workouts.

However, Italian foreclosure has historically been slow and costly, often taking years to conclude. Banks and servicers increasingly seek out-of-court solutions (e.g. encouraging the borrower to sell the property or accept a DPO) to avoid protracted legal proceedings. Below are typical cost ranges (Table 2).

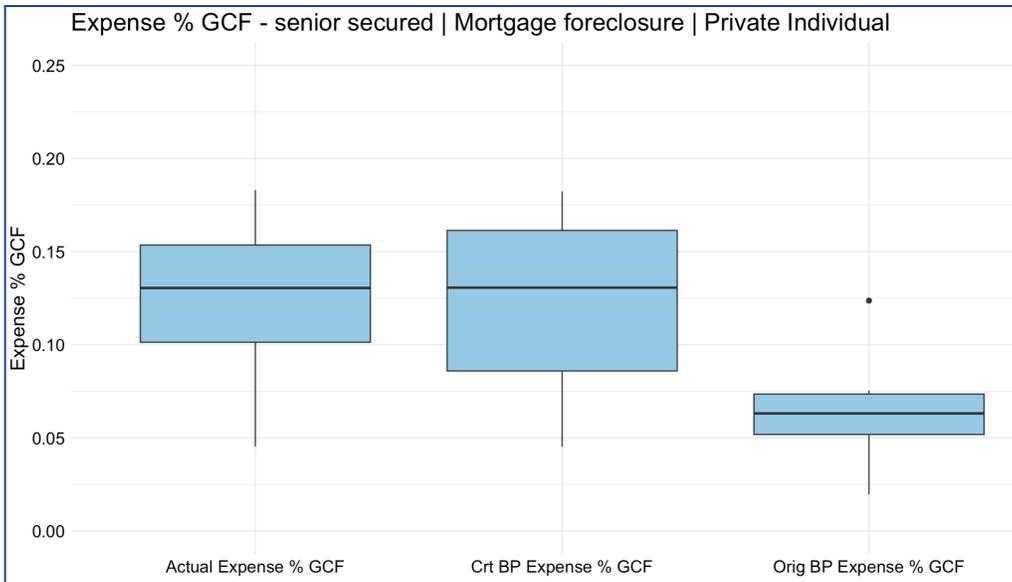


Figure 2: Legal expenses from residential mortgages in foreclosure. Source: Accuria.

Out-of-Court / DPO / Restructuring: If a homeowner in default can sell or refinance the property (often with the bank accepting a discounted payoff), legal costs stay low. Expenses might include a notary for closing or advisory fees, generally <5% of the sale proceeds. These workouts avoid court entirely, saving on procedural costs. Italian servicers’ use of DPOs has grown because extra-judicial workouts are much less expensive than judicial foreclosures (Banca IFIS 2025).

In-Court Foreclosure: A judicial foreclosure on a residential property incurs legal fees, court fees, appraiser fees, and auction costs. Servicers expect legal and court expenses of the order of 5–7% of the eventual auction sale price. The GACS data instead, point to consistently higher expenses which servicer adjust to in their updated business plans in the range of 10-15% (Figure 2). Court procedural costs (e.g. expert appraiser compensation, auctioneer fees) are significant – professional fees alone can run a few percent of the property value.

Table 2 – Residential Mortgage NPLs: Legal and procedural costs as % of recovery.

Workout Strategy	Legal Expenses (% of GCF)	Court/Procedural Costs (% of GCF)
Out-of-Court (Borrower sale/ DPO)	Expected <5% (minimal legal fees for contract, notary), but GACS data point to higher costs >5%.	0% (no court involvement)
In-Court Foreclosure	Expected 5–10% (attorney fees, lengthy case).	3–5% (court appraiser, auction delegate fees, etc.)
In-Court Bankruptcy	10–15% (insolvency legal fees & trustee)	5% (court procedural costs from bankruptcy estate)
REO (take ownership & sell)	10–20% (legal, asset management, brokerage)	10–20% (property taxes, maintenance, etc. during hold)

Real Estate Owned (REO) Strategy: In some cases, the lender (or an affiliated ReoCo vehicle) takes possession of the property and later sells it on the open market. This strategy avoids selling at distressed auction prices but incurs substantial carrying and sale costs. The ongoing costs are high: property taxes, insurance, maintenance, marketing, and broker commissions must be paid during the holding period. The GACS data shows that ReoCo operations and real estate leasing can have total expenses of the order of 20–40% of the eventual resale price for residential assets. For example, one analysis found residential REO assets had costs about 36% of the resale proceeds on average (including acquisition costs, improvements, taxes, etc.). Thus, while REO strategies can improve gross recovery prices, they are cost-intensive (Scope 2023).

4. Unsecured Corporate Loans

Unsecured corporate NPLs (loans to companies without collateral) typically involve larger debts and the possibility of corporate insolvency proceedings. The workout approaches include private restructurings, standard legal enforcement, or formal bankruptcy liquidation. Key cost observations:

Out-of-Court / Restructuring: For distressed companies, out-of-court workouts might involve bilateral agreements or multi-creditor restructurings (e.g. modifying loan terms, partial debt forgiveness, etc.) outside the judicial system. Legal expenses are relatively low – primarily negotiation and contract documentation. As a percentage of recovery, these might be in the low single digits (1–3%). No court fees apply. Even complex consensual restructurings are far cheaper than insolvency litigation. (If a

notary or financial advisor is involved, those fees are still modest compared to typical recoveries.) Overall, costs are minimal when avoiding court.

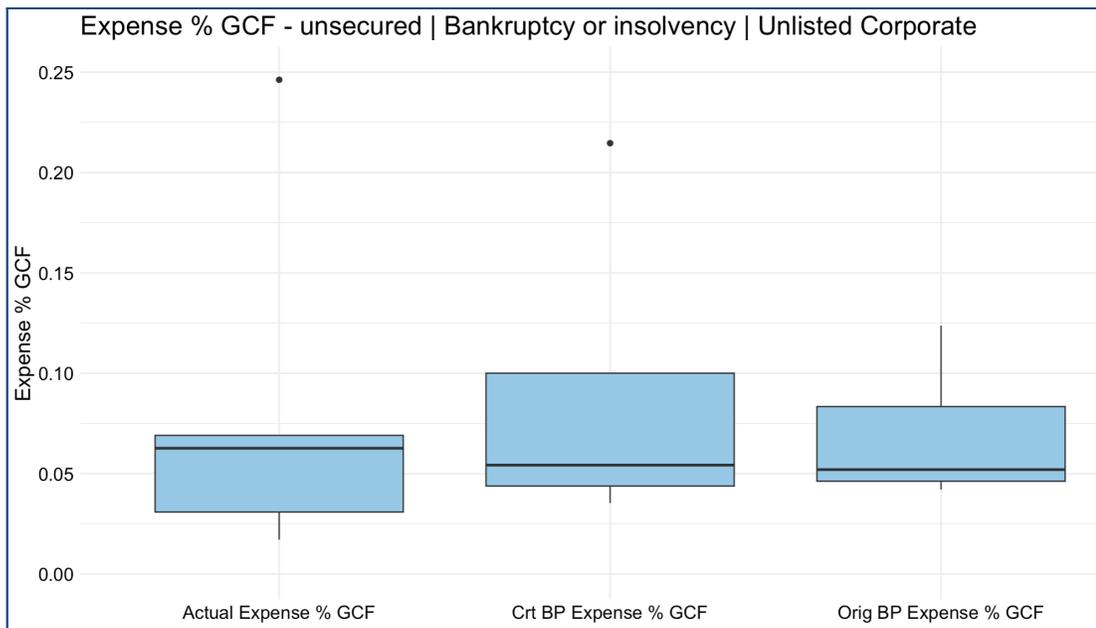


Figure 3: Legal expenses for unsecured corporate loans in Bankruptcy. Source: Accuria

In-Court Enforcement (Judgment Execution): If no amicable solution is reached, a creditor can sue the company and obtain a judgment to enforce against the company's assets. This is analogous to foreclosure but without specific collateral – essentially a debt collection lawsuit followed by seizure of assets/bank accounts by a court officer. Legal fees for obtaining a money judgment can range a few percent of the claim (often 5–10% of what's recovered, depending on complexity, Scope 2024). Court procedural costs (filing fees, bailiff fees) are usually small (perhaps 1–3%). If the company has collectible assets (equipment, inventory), the enforcement may involve auctioning those assets, incurring some auction costs. However, because unsecured recoveries tend to be low in absolute terms, creditors often keep costs down or pursue faster methods (like negotiated settlements). We estimate

total costs for a straightforward judgment enforcement in Italy around 5–10% of cash recovered.

In-Court Bankruptcy: If the borrower is insolvent, creditors may initiate bankruptcy (*fallimento*) or another collective insolvency proceeding. In Italy, unsecured creditors fare poorly in bankruptcies – recoveries are low and proceedings slow, partly due to high procedural costs. The insolvency process involves court-appointed trustees (*curatori*) who liquidate assets and take fees, as well as court expenses. By law, judicial costs have first priority from the estate, ahead of unsecured claims. Empirical benchmarks indicate unsecured creditors often recover only a small fraction (10–20%) of their claims in liquidations, reflecting that much value is absorbed by senior claims and costs. While the industry views Italian formal insolvency as very costly and inefficient for unsecured lenders, the actual legal expenses reported in the GACS to date are more modest in the 5–10% range (Figure 3).

Table 3 – Unsecured Corporate Loans: Cost estimates as % of recovery.

Workout Strategy	Legal Expenses (% of recovery)	Court/Procedural Costs (% of recovery)
Out-of-Court Restructuring	1–3% (negotiation, documentation)	0% (no court process)
In-Court Enforcement (Judgment & Execution)	5–10% (lawyer fees for lawsuit, enforcement)	1–3% (court fees, bailiff/auction costs)
In-Court Bankruptcy	10–15%+ (insolvency legal fees, trustee, etc.)	5–10% (court procedure costs paid out of estate)

5. Real Estate–Secured Corporate Loans

These are loans to businesses secured by commercial real estate or other property assets. Examples include loans to a company secured by an office building, industrial facility, or land. Workouts here often revolve around real estate foreclosure or disposal, similar to residential mortgages but potentially more complex (the borrower is a company, possibly with multiple creditors). We distinguish the strategies and costs as follows:

Out-of-Court / DPO / Restructuring: Companies with real estate collateral sometimes pursue out-of-court solutions to avoid foreclosure. This could mean selling the property privately (with the bank’s consent) and using the proceeds to settle the loan (possibly at a discount), or restructuring the debt (e.g. extension, partial write-off) using the property’s value as leverage. In these scenarios, costs are relatively low – the main legal expense is drafting agreements or assisting the sale. Typically, brokerage and notary fees on a private sale might total a few percent of the price (often paid by the buyer or shared). The bank’s own legal costs are limited (a bit of due diligence and contract work,

usually <5%). Court costs are zero since the matter stays out of court. In summary, <5% of recovery in combined expenses is common.

In-Court Foreclosure: If out-of-court settlement fails, the lender can foreclose on the commercial property through the courts. The cost structure is similar to residential foreclosure: legal fees for the creditor’s attorneys, court-appointed appraisal and auction costs, etc. However, commercial foreclosures can be more protracted due to higher values and potential opposition from the company or other creditors. On the other hand, some cost components scale with value (e.g. fixed fees become a smaller percentage for very high-value properties). Figure 4 shows the expected and observed legal expenses for corporate foreclosures in the GACS data. Again, similar to residential mortgages the expenses are underestimated in the original business plan and revised up in the latest available BPs.

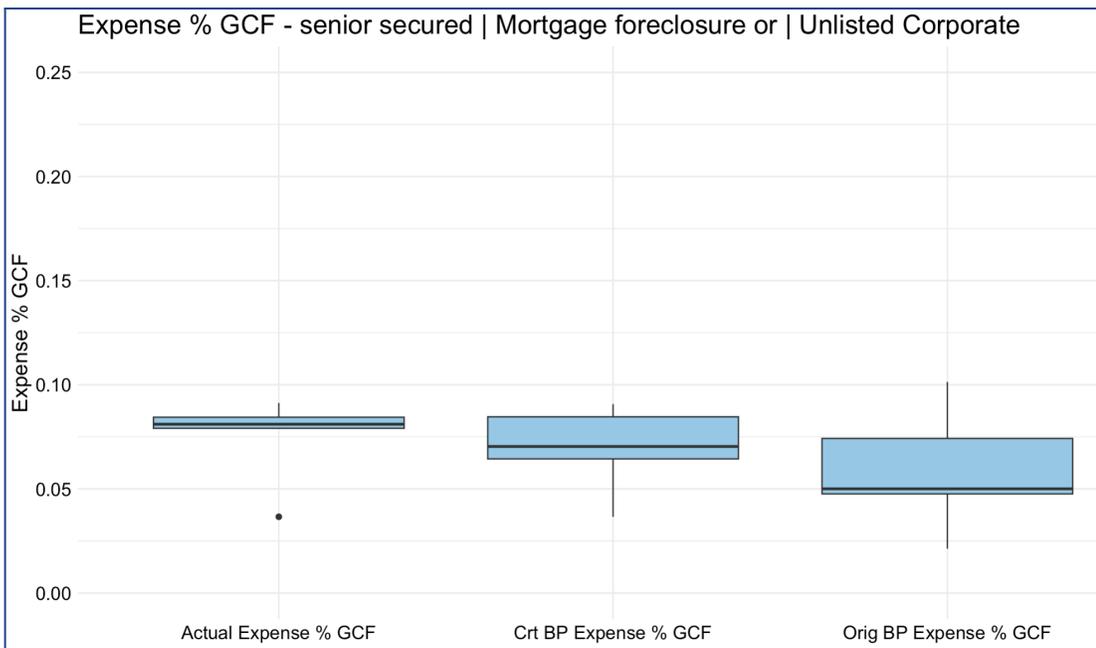


Figure 4: Legal expenses in corporate foreclosures. Source: Accuria

In-Court Bankruptcy: If the borrowing company enters bankruptcy, the property collateral will be liquidated within that proceeding. The secured lender has priority to be paid from the sale, but

must still bear delays and some costs. In Italian bankruptcies, even secured creditors can be affected by court costs – the law allows certain procedural costs and taxes to be paid out of collateral proceeds. Additionally, the bankruptcy trustee’s commission (and legal costs to represent the creditor in the case) effectively reduce the net recovery. Thus, a foreclosure via bankruptcy likely costs more than a normal foreclosure. We estimate total costs could reach 10–15% of the recovery. Empirical evidence: Bank of Italy data show that secured NPL recoveries via liquidations average lower rates than via standard procedures, indicating additional value erosion (partly due to costs). So while the property still gets sold, extra court overhead (possibly 5 percentage points more) is incurred.

REO Strategy: Similar to residential cases, the creditor (or an NPL investor’s ReoCo) may acquire the commercial property at auction to later sell on the open market. The goal is to fetch a better price than a quick auction sale, but it means the creditor temporarily owns the real estate. During this period, they must cover asset management costs: security, maintenance, property tax (IMU), insurance, any needed capital expenditures, and eventually realtor fees to sell. These costs are often substantial relative to the property’s value. Data from ReoCo portfolios show that for commercial/industrial properties the total costs from acquisition to resale can be around 30–40% of the resale price. For instance, in one study commercial assets had on average 30% of value consumed by costs, and industrial assets over 40%. Legal expenses themselves might include transaction structuring and any eviction proceedings for occupants, but the bulk is ongoing carrying and sale costs. We therefore assign a high range (e.g. 25–40% of recovery) for REO strategies on corporate properties. This reflects the real-world experience that while REO can improve gross recoveries, net proceeds are heavily reduced by operating costs.

Table 4 – Real Estate Secured Corporate Loans: Cost estimates (% of recovery).

Workout Strategy	Legal Expenses (% of GCF)	Court/Procedural Costs (% of GCF)
Out-of-Court (Asset sale or restructure)	2–5% (legal advisory, sale contracts)	0% (no court involved)
In-Court Foreclosure	5–10% (attorneys, prolonged case)	3–5% (court experts, auction costs)
In-Court Bankruptcy	10–15% (insolvency legal fees, trustee fee)	5–7% (court proceeding costs from estate)
REO (take over property)	10–20% (legal, REoCo management fees)	15–20% (taxes, maintenance, resale costs)

6. Conclusion

Legal and procedural costs in Italian NPL workouts vary by strategy and collateral type. Out-of-court workouts are expected to have the lowest cost ratios (often just a few percent of recoveries or less), as they avoid court fees and extensive legal proceedings. Our data from GACS transactions points to higher than expected legal and other expenses in this cluster. Judicial foreclosures of secured assets involve material costs (generally in the mid to high single digits percent) in Italy’s system. NPL servicers have consistently underestimated the cost of foreclosures both for individuals and corporations. While formal bankruptcies are generally expected to be the most expensive route in terms of percentage of recovery lost to costs, the GACS data does not point to consistently higher bankruptcy costs compared to foreclosure. We note that most of our data on bankruptcies relate to open cases and hence final legal

expenses are not yet determined. Broadly speaking we do not observe a material shift in the expense ratio over time, but the censoring of our data requires further investigation. While individual GACS transactions disclose useful information on workout strategies, the disclosure consistency specifically of out-of-court or in-court restructuring procedures is low and requires further investigation.

Asset type matters: Unsecured loan recoveries incur lower direct costs (no collateral to manage, and often quicker resolutions), whereas loans or leases with real estate entail higher expenses – due to court proceedings for foreclosure/eviction and ongoing property expenses. In fact, lease NPLs and REO strategies are notably cost-heavy, as the lessor / lender assumes all ownership costs once default occurs and the collateral is repossessed. Empirical figures from servicers and rating agencies confirm that Italian NPL transactions usually budget around 5–10% of gross recoveries for recovery expenses overall, but this can climb to mid-teens in portfolios dominated by secured assets or leases. The ranges presented in the tables encapsulate these findings, providing a comprehensive overview across asset classes and strategies.

Overall, the preference for extra-judicial solutions in recent years (facilitated by improved market conditions and legal reforms) reflects an understanding that speed and cost-efficiency in NPL workouts go hand in hand: faster resolutions like DPOs not only improve recovery timing but also keep expense ratios far lower than drawn-out court procedures. Conversely, when lengthy court action is unavoidable (foreclosures, bankruptcies), stakeholders must account for significant cost leakage – from lawyer fees to court charges – which materially reduces net recoveries. This cost drag is especially pronounced in Italy due to historically slow enforcement, though recent reforms aim to streamline these processes.

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With the help of its proprietary data mapping and transformation tool Accuria helps financial institutions to map their data to a variety of data formats such as those defined by EBA for NPL transactions, EBA for the valuation in resolution, and by ESMA for securitisation disclosures. Once standardised and validated, the loan-level data can be uploaded to the Accuria valuation tool to conduct a detailed discounted cash flow analysis using pre-populated pricing parameters in different macroeconomic scenarios across all major asset classes.

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