

Guidelines on management of non-performing and forborne exposures

Introductory comments

Eurofinas, the voice of specialised consumer credit providers at European level, welcomes the opportunity to respond to the EBA's consultation on the draft Guidelines on management of non-performing and forborne exposures.

We take note of the EBA's objective to reduce NPEs in banks' balance sheets and understand and support the background of this initiative. In this context, the Federation welcome the combined efforts of the EBA in relation to the subject-matter. We believe that the efforts constitute valuable measures to address the relevant issues and concerns.

Eurofinas agrees that a high-stock of NPEs can have important and diverse implications. Against this background, **we believe it is important to address the causes of non-performing exposures and not to restrict action to consequences**. As pointed out by the European Systemic Risk Board in its July 2017 report on the resolution of NPLs in Europe, NPL ratios differ significantly across jurisdictions as well as across banks:

- **The NPL ratio is highly dispersed across EU countries**, ranging from 1% to circa 50%.
- **NPL ratios are the highest in medium-sized banks**. Larger and smaller institutions have been able to contain the growth of NPLs at around 3% (compared to an average 7% for medium-sized institution).
- **The NPL ratio of exposures in SMEs (15.5%) is significantly higher** than exposures in large corporates (7%) and households (4.6%). This may point out to the health of non-financial corporations across Europe but also to applicable origination standards in some jurisdictions.



We believe these findings are critical and should be considered when designing policies and guidance concerning the treatment of NPEs.

We fully agree on the need for the strong monitoring and supervision of non-performing exposures. They pose a threat not only to financial institutions, but also to the overall economy and customers facing hardships. After the financial crisis in 2008, financial institutions have put strong emphasis on the subject-matter, with concrete responses which have significantly reduced their levels of NPEs. Lending institutions focused on retail consumer loans have monitoring systems in place in order to allow for early detection of potential issues as well as efficient recovery processes, as evidenced by high recovery rates.

We therefore welcome the EBA's focus on proportionality in the proposed guidelines. It is important to ensure that the strategy and methodologies adopted are indeed consistent with firms' technical abilities, resources and the well-functioning measures already put in place by financial institutions.

Specific comments

- **Threshold (Question 2 - What are the respondents view of the proposed threshold of 5% NPL ratio?)**

The proposed Guidelines sets out a threshold at a 5% NPL ratio (non-performing loans/total loans). We are concerned that such a uniform threshold may fail to properly encompass and take due consideration of the varying portfolios in scope of the proposed measures. The NPL ratio may vary over time, and from one institution to another, depending on the arbitration between profitability and cost of risk, and from one type of credit to another (consumer credit, mortgage credit, etc.).

We therefore believe that a differentiation of the threshold should be considered for different exposures to take greater consideration of differences in both cyclical and fundamental risk characteristics. Also, a threshold based on the total cost of risk could prove more appropriate.

- **Operationalisation of the NPE strategy (Question 5 - Do you see any significant obstacles to the operationalisation of the NPE strategy as described in chapter 5?)**

As outlined above, retail focused lending institutions already have in place many of the processes and actions foreseen by the EBA. In relation to such measures, a central consideration for financial institutions relates to the framework set out by the General Data Protection Regulation and its relevant provisions, e.g. on profiling and automated processes. To bring further legal clarity and a consistent approach across the EU, we believe it would be beneficial with further consideration by the EBA, in conjunction with other relevant supervisors, on the subject-matter.

- **Recognition of non-performing and performing/non-performing forborne exposures (Question 7 - What are the respondents view on the proposed requirements for recognition of non-performing and performing/non-performing forborne exposures?)**

The Guidelines make a distinction between short-term and long-term forbearance measures, and specific criteria is provided to assess the viability of the forbearance measures. In particular, institutions should systematically collect documented financial information from the customer in order to justify the measure undertaken.



For consumer credit activity, characterised by short durations, small amounts and that it is exclusively directed to individuals, we believe that the requirements may prove disproportionate. They may even provide for increased complexity and hinder forbearance processes.

Also, the distinction between short-term and long-term measures seems unsuitable as the probation period which determines the duration of the forbearance measure is already regulated and forbearance measures generally extend the duration of the credit.

- **Threshold for property specific valuation (Question 9 - Do you have any significant objection against the proposed threshold for property-specific valuation (EUR 300,000)?**

We see the threshold of 300,000 EUR as disproportionately low.

About Eurofinas

As a Federation, Eurofinas brings together associations throughout Europe that represent finance houses, universal banks, specialised banks and captive finance companies of car or equipment manufacturers. The products sold by Eurofinas members include all forms of consumer credit products such as personal loans, linked credit, credit cards and store cards.

It is estimated that together the Eurofinas members financed almost 427 billion euros worth of new loans during 2016 with outstandings reaching 1024 billion euros at the end of the year¹. Consumer lending is procyclical and is highly positively correlated with households' disposable income. By providing access to finance to individuals and households, consumer credit supports the social and economic well-being of millions of consumers across Europe.

Eurofinas is entered into the European Transparency Register of Interest Representatives with ID n° 83211441580-56.

¹ This includes 320.4 billion euros in new consumer loans in 2016. Of that amount, 108 billion euros was consumer vehicles. Outstanding portfolio reached 709.5 billion euros.