

FURTHER REDUCING RISKS

by tackling non-performing loans

WHAT ARE NON-PERFORMING LOANS (NPLS)?

A loan is classified as non-performing when a borrower – a company or a physical person:

- has not made scheduled payments on interest or capital reimbursements for 90 days or more past due; or
- is still repaying the loan but is unlikely to do so in the near future.

WHY DO WE NEED TO TACKLE NPLS?

- ✓ Reduce risks to banks' stability and the financial system as a whole
- ✓ Enable banks to lend more to households and businesses
- ✓ Encourage economic growth by making funding available to viable companies

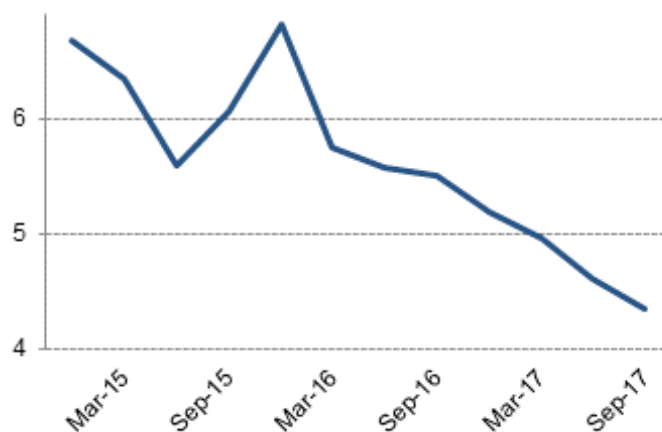
NPLS IN EUROPE ARE ALREADY DECLINING

Non-performing loans in % of total loans in selected countries			
	Q3 2016	Q3 2017	% change
 Cyprus	36.8	32.1	-12.7%
 Spain	5.8	4.7	-19.7%
 Greece	47.4	46.7	-1.5%
 Ireland	14.4	11.2	-22.5%
 Italy	16.1	12.1	-24.9%
 Portugal	17.7	14.6	-17.3%
 Slovenia	14.4	10.8	-24.8%

Source: European Central Bank

Non-performing loans in the EU

EU total gross non-performing loans and advances, in % of total gross loans and advances, end of quarter values



Source: European Central Bank

"As Europe and its economy regain strength, Europe must seize the momentum and accelerate the reduction of NPLs. This is essential to further reduce risks in the European banking sector and strengthen its resilience. With fewer NPLs on their balance sheets, banks will be able to lend more to households and businesses. Our proposals build on the significant risk reduction already achieved in recent years, and must be an integral part of completing the Banking Union through risk reduction and risk sharing."

VALDIS DOMBROVSKIS

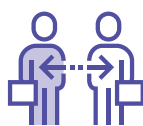
Vice-President in charge of Financial Stability,
Financial Services and Capital Markets Union

WHO WILL BENEFIT FROM TODAY'S PROPOSALS?



CITIZENS

- A more stable financial system
- Better access to bank credit and healthier economy with more growth



BUSINESSES

- Increased lending to economically viable companies
- Better access to credit for start-ups and small and medium-sized firms



INVESTORS

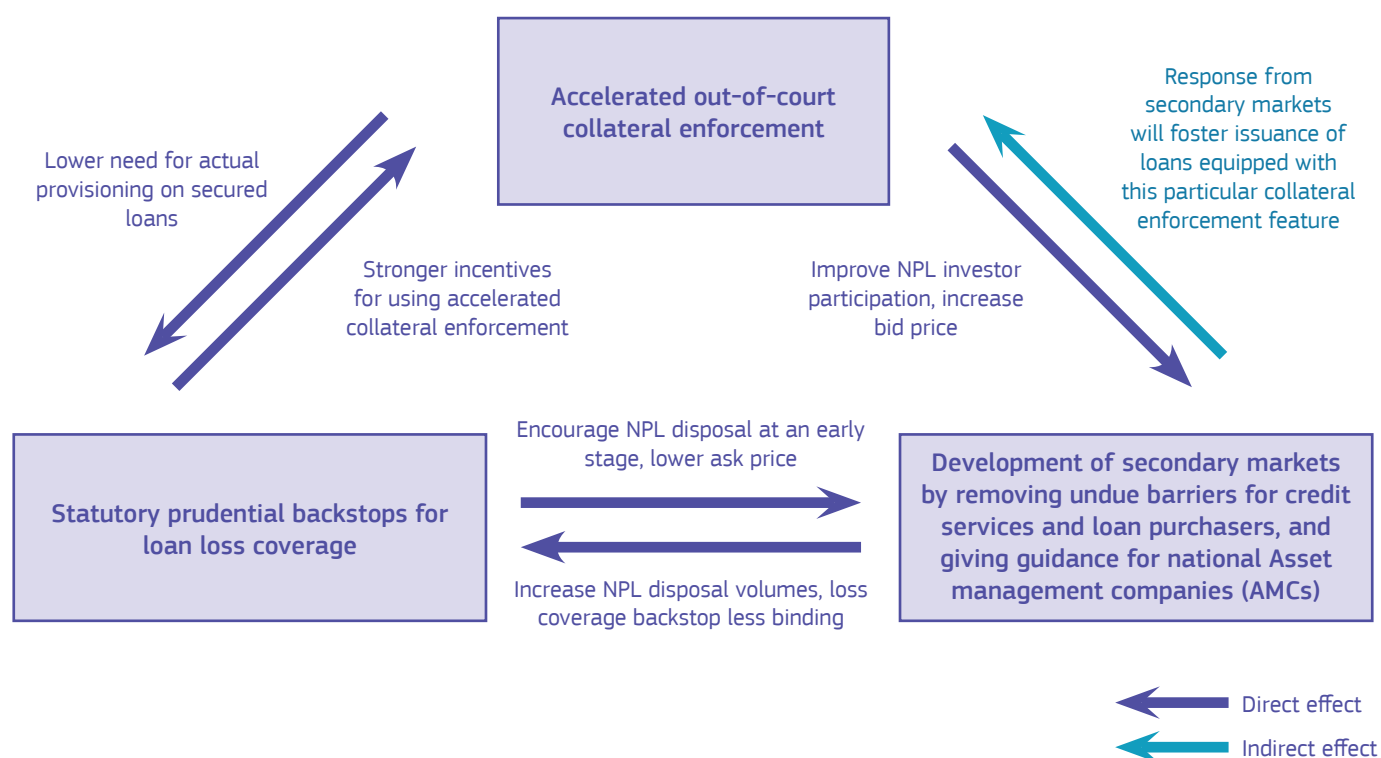
- New investment opportunities in NPL portfolios
- Easier to invest across borders



BANKS

- Healthier balance sheets
- Banks can lend more and hence improve their profitability

WHAT ARE YOU PROPOSING TODAY?



ACTION 1: DEVELOPING SECONDARY MARKETS FOR NPLS

What is the Commission proposing?

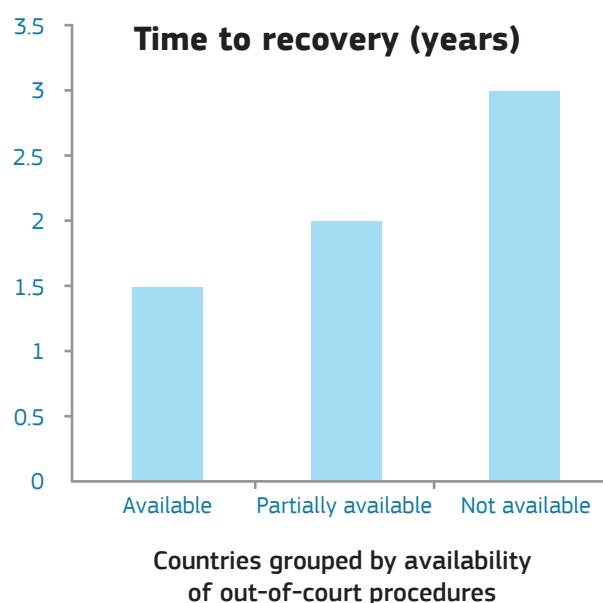
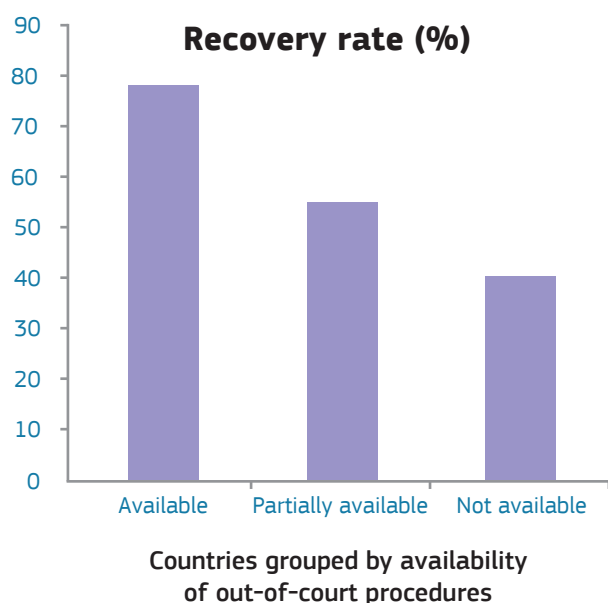
- ✓ New rules make it easier for credit servicers to do business and operate EU-wide ("passporting"), making it easier for banks to sell NPLs
- ✓ Investors in NPLs can draw on more credit servicers, making it easier for them to buy NPLs
- ✓ Borrower rights are protected: conditions of initial credit agreement continue to apply, improved complaint rights

ACTION 2: FACILITATING OUT-OF-COURT COLLATERAL ENFORCEMENT

What is the Commission proposing?

- ✓ When a borrower defaults, Member States have to put in place options to recover the value of a loan guaranteed by collateral without going to court
- ✓ This allows banks to recover value from collateral faster, preventing build-up of new NPLs
- ✓ Less NPLs on banks' balance sheets allow banks to lend more, particularly to small and medium-sized companies
- ✓ Safeguards to protect debtors: right to challenge before court, exclusion of consumers loans and of the main residence of the business borrower

Swifter collateral enforcement makes settling NPLs more efficient



Source: World Bank Doing Business, Commission services analysis

ACTION 3: STATUTORY PRUDENTIAL BACKSTOPS

What is the Commission proposing?

- ✓ An amendment to the Capital Requirements Regulation (CRR)
- ✓ Banks have to set aside a minimum amount of capital to cover their incurred and expected losses on NPLs
- ✓ If a bank does not meet this requirement, the gap will be deducted from its regulatory capital
- ✓ This new rule only applies to newly originated loans.

➡ **This will reduce the negative effects on banks from NPLs in the future**

ACTION 4: A BLUEPRINT FOR NATIONAL ASSET MANAGEMENT COMPANIES

What are the benefits?

- ✓ Asset management companies (AMCs) help banks free their balance sheets of NPLs by transferring them to an AMC, making it easier for investors to buy NPLs
- ✓ They can be set up by one or more banks or by public authorities in the Member States
- ✓ Non-binding blueprint provides practical guidance for the design and set-up of AMCs building on best practices in Member States
- ✓ EU state aid and bank resolution rules need to be respected

HOW WILL CONSUMERS AND BORROWERS BE PROTECTED?

The Commission pays close attention to the people behind NPLs. They are often individual citizens or small businesses who face difficulties repaying their loans and deserve protection.

Proposal for accelerated out-of-court collateral enforcement:

Out-of-court collateral enforcement cannot be used against consumers, and against other borrowers only when explicitly agreed to upfront. Even then, borrowers have the right to challenge the use of out-of-court collateral enforcement in court.

Proposal for developing secondary markets for NPLs:

Consumer protection is maintained and specific safeguards are put in place for the handling of borrower complaints.

The existing Union civil law acquis and the consumer protection rules in the Member States are safeguarded and will continue to be fully respected.

The Commission's NPL package

Addressing potential under provisioning of newly originated loans

Enhancing the protection of secured creditors

Develop secondary markets for NPLs

Develop an AMC Blueprint

Interpretation of existing supervisory powers on banks' provisioning policies

Benchmarking of national loan enforcement and insolvency frameworks

Develop the focus on insolvency issues in the European Semester

Strengthening NPL data infrastructure

Extend existing SSM guidance to banks on NPLs to small banks

Adopt EU-wide NPE management guidelines

New guidelines on banks' loan origination, monitoring and internal governance

Enhanced disclosure requirements on asset quality and NPLs for all banks

Improving loan tape information required from banks

Develop macroprudential approaches to tackle the build-up of future NPLs

GLOSSARY:

AMC - Asset management companies

NPL - Non-performing loans

NPE - Non-Performing Exposure

SSM - Single Supervisory Mechanism