

Remarks by Valdis Dombrovskis at the press conference on Reducing Risk in the Banking Union: Commission presents measures to accelerate the reduction of non-performing loans in the banking sector

Good afternoon. Today the Commission is putting on the table of co-legislators yet another set of proposals to reduce risks in the Banking sector. This time, we are targeting non-performing loans.

With today's package, we have delivered more risk-reduction measures than the Council originally planned in their 2016 roadmap to complete the Banking Union.

The measures we are presenting today would improve conditions for Member States and banks to tackle non-performing loans, or NPLs. The goal is simple: to speed up the ongoing reduction of NPLs in Europe's banks, and prevent them from building up again in the future.

This would free up capacity on banks' balance sheets, and allow them to expand lending to businesses and households. So it is a contribution to creating growth and jobs. But it would also help rid our banking sector of a potential source of vulnerability. This is why it is part and parcel of our broader efforts to reduce risks in our banking sector and complete the Banking Union.

We welcome the steady reduction in the average level of non-performing loans. It has come down from 6.7% at the end of 2014, to 4.4% by the third quarter of last year. But despite this progress, NPLs are still well above pre-crisis levels, and they are unevenly distributed across EU countries. With Europe's economy regaining its strength, now is the time for determined steps to reduce legacy risks and make our banking sector stronger.

Our package combines four policy actions, which I will now outline in more detail:

First, prudential backstops. Prevention is the best cure, so our first proposal seeks to ensure that banks have enough funds to cover losses from future non-performing loans. This would be done by amending the Capital Requirements Regulation. Our proposal introduces minimum coverage levels for newly originated loans that become non-performing. These requirements would create incentives for banks to work out NPLs at an early stage, and avoid excessive accumulations.

But we also need to improve conditions for banks to deal with those loans that still fall through the cracks and become non-performing. So today we are putting forward a directive to do exactly that, by acting along two avenues:

The first avenue – which would only apply to business loans – is speeding up the ability of banks and other creditors to recover the collateral pledged as part of a loan. For this, we are proposing a new mechanism for an accelerated out-of-court procedure.

In other words, a procedure for creditors to recover the collateral from a loan without having to go to court. This would provide more speed and legal certainty to creditors, subject to appropriate safeguards for debtors.

This procedure would only be accessible if both lender and borrower have agreed on it in the loan contract. Why would they do so? Because the new procedures would enable banks to lend at lower cost, especially in Member States where insolvency is currently slow. We estimate a reduction of funding costs of about 10-18 basis points on average, and up to 40% more for SMEs.

The second avenue is to further develop secondary markets for NPLs, to facilitate their sale and transfer to specialised market participants. This is especially useful if stocks of non-performing loans have become so high that banks cannot work them out on their own, as is the case in some Member States.

In such countries, our proposed measures could help increase NPL sales by up to 15% per year, thereby speeding up the reduction of NPL ratios. Our directive would harmonise requirements for credit servicing, and allow those servicers that meet them to operate across the EU based on a single authorisation. And it would come with legal safeguards and transparency rules to ensure that the transfer of a loan does not affect the legitimate rights and interests of the borrower.

The fourth and final action is the publication of a blueprint for setting up Asset Management Companies, in full compliance with current EU State aid and bank resolution rules. This will be helpful in the potential case where NPLs have become a significant problem for a Member State, and it wishes to address this systematically.

With today's package, we are taking an additional step towards lowering risks in our banking sector. So we hope that it can form the basis for a balanced deal on completing the Banking Union ahead of June's Leader's meeting.

The end result would be a banking sector that is strong and stable, with the capacity to withstand future shocks, wherever they may come from. This is a key ingredient in future economic prosperity, and a resilient Economic and Monetary Union.

Thank you.

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EU Visa Policy: Commission puts forward proposals to make it stronger, more efficient and more secure

The Commission is today proposing to reform the EU's common visa policy to adapt the rules to evolving security concerns, challenges linked to migration and new opportunities offered by technological developments. The proposed changes to the Visa Code will make it easier for legitimate travellers to obtain a visa to come to Europe, facilitating tourism, trade and business, whilst strengthening security and mitigating irregular migration risks. Commissioner for Migration, Home Affairs and Citizenship, Dimitris **Avramopoulos** said: *"Every year, millions of travellers visit the EU and boost our travel and tourism industry. With the reforms we propose today it will become easier and faster for legitimate travellers to obtain a visa while security standards will be enhanced to better detect and stop those who are not. The new rules will also make sure our common visa policy can help improve our cooperation with non-EU countries when it comes to the return of irregular migrants."* Today's amendments to the Visa Code are the first step of the reform of the common EU visa policy – a proposal to update the Visa Information System (VIS) will follow in spring this year. A [press release](#), [Q&A](#) and a [factsheet](#) are available online. (For more information: Natasha Bertaud – Tel.: +32 229 67456; Tove Ernst – Tel.: +32 229 80423; Katarzyna Kolanko – Tel.: 32 229 63444)

European Agenda on Migration: Continuous efforts needed to sustain progress

Ahead of the March European Council, the Commission is reporting today on progress made under the European Agenda on Migration and sets out further key actions to be taken, including as set out in the Commission's roadmap from December 2017 towards a comprehensive deal on migration by June 2018. The decrease in irregular arrivals has been confirmed throughout 2017 and the first months of 2018. However, with the overall situation remaining fragile, additional efforts, notably stepped up financial resources, will be needed jointly from the Member States and the EU to ensure a continued, effective response to the migration challenge. First Vice-President Frans **Timmermans** said: *"We need to maintain this momentum and work hard to take further steps forward, including finding agreement on the reformed asylum system. Some of these actions are very urgent, such as honouring the financial contributions Member States committed to. Managing migration remains a high priority for our citizens and we will only achieve this through a truly comprehensive and collective engagement."* High Representative/Vice-President Federica **Mogherini** said: *"The strategy we have put in place to manage migration in partnership with key countries, UN organisations and the African Union is delivering. Cooperation and shared responsibilities are key to effectively address this global challenge."* Commissioner for Migration, Home Affairs and Citizenship Dimitris **Avramopoulos** said: *"With arrivals down by almost 30% compared to the*

pre-crisis year 2014, the time is ripe to speed up and intensify our efforts across the board – not to slow down.” A [press release](#) and factsheets on the [EU-Turkey Statement](#) and the [Central Mediterranean Route](#). (For more information: [Natasha Bertaud](#) – Tel.: +32 229 67456; [Catherine Ray](#) – Tel.: +32 2 296 99 21; [Tove Ernst](#) – Tel.: +32 229 86764)

EU Facility for Refugees in Turkey: the Commission proposes to mobilise additional funds for Syrian refugees

Following through on its commitment to support Syrian refugees in Turkey, the European Commission is today mobilising additional funding for the [Facility for Refugees](#) which has so far given 500.000 children access to education and is supporting 1.2 million refugees with monthly cash transfers. The Commission proposes to mobilise the second €3 billion tranche of the Facility, with €1 billion from the EU budget and calls on Member States to follow suit quickly so that the successful and effective work of the Facility can continue. Johannes **Hahn**, Commissioner for European Neighbourhood Policy and Enlargement Negotiations, said: *“Today the Commission takes the first step in the mobilisation of additional support under the Facility for Syrian Refugees in Turkey. The publication of the second annual report clearly highlights the positive results achieved so far and how vital and effective the Facility is, in supporting the most vulnerable refugees and their host communities in Turkey, thus reducing migratory pressures. I call on Member States to fulfil the commitments taken to mobilise an additional €3 billion, allowing us to continue our indispensable assistance.”* Christos **Stylianides**, Commissioner for European Humanitarian Aid & Crisis Management, said: *“From helping children attend school to giving vulnerable families access to essential services, the EU’s humanitarian aid for refugees in Turkey has delivered tangible results. 1.2 million refugees have benefitted from EU humanitarian support through our largest ever cash assistance programme. The new funding will allow us to continue working with Turkey and humanitarian organisations to assist vulnerable refugees and their host communities.”* A [press release](#) as well as a [factsheet](#) on the EU Facility for Refugees in Turkey are available online. (For more information: [Maja Kocijancic](#) – Tel.: +32 229 86570; [Carlos Martin](#) – Tel.: +32 229 65322; [Alceo Smerilli](#) – Tel.: +32 229 64887; – [Daniel Puglisi](#) – +32 229 69140)

Reducing Risk in the Banking Union: Commission presents measures to accelerate the reduction of non-performing loans in the banking sector

The Commission is today proposing an ambitious and comprehensive package of measures to tackle non-performing loans (NPLs) in Europe, capitalising on the significant progress already made in reducing risks in the banking sector. With today’s far-reaching measures, the Commission is delivering on the Council’s Action Plan to address the high stock of NPLs and prevent their possible future accumulation. It builds on ongoing efforts by Member States, supervisors, credit institutions and the EU: this has led to stocks of NPLs declining in recent years across banks and EU countries. Valdis **Dombrovskis**, Vice-President for Financial Stability, Financial Services and Capital Markets Union, said: *“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."The Commission is also presenting its second progress report on the reduction of NPLs in Europe, showing that the decline of NPL stocks is continuing. You can find the full [press release](#), [MEMO](#) and [factsheet](#) online. (For more information: Vanessa Mock – Tel.: +32 229 56194; Letizia Lupini – Tel.: +32 229 51958)

Eurostat: L'emploi en hausse de 0,3% dans la zone euro et de 0,2% dans l'UE28, respectivement +1,6% et +1,5% par rapport au quatrième trimestre 2016 (Quatrième trimestre 2017 par rapport au troisième trimestre 2017)

Le nombre de personnes ayant un emploi a augmenté de 0,3% dans la zone euro (ZE19) et de 0,2% dans l'UE28 au quatrième trimestre 2017 par rapport au trimestre précédent, selon les estimations basées sur les comptes nationaux et publiées par Eurostat, l'office statistique de l'Union européenne. Au troisième trimestre 2017, l'emploi avait progressé de 0,4% dans la zone euro et de 0,2% dans l'UE28. Ces chiffres sont corrigés des variations saisonnières. Par rapport au même trimestre de l'année précédente, l'emploi a augmenté de 1,6% dans la zone euro et de 1,5% dans l'UE28 au quatrième trimestre 2017 (après respectivement +1,7% et +1,6% au troisième trimestre 2017). Selon les estimations d'Eurostat, 236,8 millions d'hommes et de femmes avaient un emploi dans l'UE28 au quatrième trimestre 2017, dont 156,7 millions dans la zone euro. Il s'agit des plus hauts niveaux jamais enregistrés dans les deux zones. Ces chiffres sont corrigés des variations saisonnières. Sur l'ensemble de l'année 2017, l'emploi a progressé de 1,6% tant dans la zone euro que dans l'UE28, contre respectivement +1,3% et +1,2% en 2016. Ces données trimestrielles sur l'emploi fournissent une mesure du volume de la main-d'œuvre qui est cohérente avec celle de la production et des revenus dans les comptes nationaux. Un communiqué de presse Eurostat est à votre disposition [en ligne](#). (Pour plus d'informations: Christian Wigand – Tel.: +32 22962253; Sara Soumillion – Tel.: +32 229 67094)

Eurostat: La production industrielle en baisse de 1,0% dans la zone euro et en baisse de 0,7% dans l'UE28 (Janvier 2018 comparé à décembre 2017)

En janvier 2018 par rapport à décembre 2017, la production industrielle corrigée des variations saisonnières a diminué de 1,0% dans la zone euro (ZE19) et de 0,7% dans l'UE28, selon les estimations d'Eurostat, l'office statistique de l'Union européenne. En décembre 2017, la production industrielle avait progressé de 0,4% dans la zone euro et de 0,3% dans l'UE28. En janvier 2018 par rapport à janvier 2017, la production industrielle a augmenté de 2,7% dans la zone euro et de 3,0% dans l'UE28. Un communiqué de presse Eurostat est à votre disposition [en ligne](#). (For more information: Lucía Caudet – Tel.: +32 229 56182; Victoria von Hammerstein – Tel.: +32 229 55040; Maud Noyon – Tel.: +32 229 80379)

ANNOUNCEMENTS

High Representative/Vice-President Mogherini in Rome on 15 March for two ministerial-level events

High Representative for Foreign Affairs and Security Policy/Vice-President of the European Commission Federica **Mogherini** will travel to Rome on 15 March. In the morning, the High Representative/Vice-President will participate in the **Ministerial Conference on UNRWA**, the United Nations Relief and Works Agency for Palestine Refugees in the Near East, where more than 90 countries and international organisations will be represented to discuss ways to increase financial support to UNRWA for solving the acute funding crisis the Agency is facing and to move forward the necessary reforms. The European Union is a strong supporter of the work of UNRWA, including through its predictable and reliable financing, in order to secure the continuity of the Agency's vital operations that ensure Palestine refugees in and outside of Palestine access to basic services such as education, health and jobs, pending resolution of their situation. In the afternoon, the High Representative will participate in the **Rome II Ministerial Meeting** to support the Lebanese Armed Forces and the Internal Security Forces, organised under the aegis of the International Support Group for Lebanon and hosted by the Italian Foreign Ministry. The EU is a longstanding supporter of Lebanon's security sector and has been accompanying the Lebanese authorities and other international partners' efforts to ensure the stability and security of the country for years. Federica **Mogherini** will confirm EU's continued commitment in this regard. Audio-visual coverage of the visit will be available on [EBS](#). (for more information: Maja Kocijancic – Tel.: +32 229 86570; Catherine Ray – Tel.: +32 229 69921; Lauranne Devillé – Tel.: +32 229 80833)

Vice-President Šefčovič in Bulgaria for second Energy Union Tour

Commission Vice-President for Energy Union Maroš **Šefčovič** will be in Bulgaria on 14-15 March for the second [Energy Union Tour](#). He will meet Bulgarian President Rumen Radev, Prime Minister Boyko Borissov, Minister of Energy Temenuzhka Petkova, and MPs from the Bulgarian parliament's Energy and European Affairs committees. Their discussions will focus on Bulgaria's progress towards its 2020 targets for energy efficiency, renewables and greenhouse gas emissions reduction, its energy security situation, and the development of its internal energy market. The Vice-President will also deliver a keynote speech at a conference on 'The role of non-governmental organizations for improving the energy policy and the legal basis in the field of energy – challenges in South East Europe'. Ahead of his visit, Vice-President **Šefčovič** said: *"I will encourage Bulgaria to deliver its national 2030 energy and climate plan in a comprehensive way, in a timely fashion and with involvement of civic society. The plans are not mere ink on paper but a strong signal towards investors whom we need on board for the energy transition to succeed. Our estimates show that achieving the EU's 2030 targets could lead to an increase of 1.2% in GDP of Bulgaria, more than the EU average. As Bulgaria is currently at the EU's helm, I am also looking forward to discussing the state of play of the [Clean Energy package](#)*

[legislative proposals](#) as well as the [Gas directive revision](#). The Bulgarian Presidency plays a vital role in getting us across the Energy Union's finish line". Please find more information on the [Commission's website](#). (For more information: Anca Paduraru – Tel.: +32 229 91269; Nicole Bockstaller – Tel.: +32 229 52589)

La Commissaire Gabriel à Paris pour un dialogue avec les citoyens

Demain, jeudi, 15 mars, Mariya **Gabriel**, Commissaire pour l'économie et la société numériques se rendra à Paris où elle tiendra un [dialogue avec les citoyens](#) avec M. Mounir Mahjoubi, Secrétaire d'Etat auprès du Premier ministre, chargé du Numérique dans les Halles Civiques dans le 20^{ème} arrondissement de Paris ensemble. La Halle Civique est un espace collaboratif porté par un collectif d'associations, d'entreprises, d'entrepreneurs sociaux et d'institutions, avec le soutien de la Ville de Paris. Elle y discutera avec des membres de la Halle Civique, des étudiants ainsi que des membres du réseau [OpenDemocracy](#) (Démocratique ouverte). Le dialogue avec les citoyens sera retransmis en direct via un Facebook Live Chat et peut être suivi [ici](#). Le même jour, la Commissaire tiendra un discours sur les "Opportunités numériques pour l'Europe", invitée par le réseau européen pour femmes en [European Network for Women in Leadership](#) (WIL). À l'occasion de cette visite, les membres du "European Network for Women in Leadership" lanceront la 4^{ème} édition de leur programme "Pool des compétences des femmes", qui sera parrainée par la Commissaire **Gabriel**. (Pour plus d'information: Nathalie Vandystadt – Tel.: +32 229 56172; Julia-Henriette Bräuer – Tel.: +32 229 80707)

Commissioner King in Sweden to discuss cooperation on security

Commissioner for the Security Union Julian **King** will be in Sweden tomorrow where he will meet Minister for Justice, Mr Morgan Johansson and National Police Commissioner, Mr Anders Thornberg. Commissioner King will also address members of the Committee on Justice at the Swedish Parliament and deliver a speech at the Swedish Security Awards [Säkerhetsgalan 2018](#). Later in the afternoon, he will visit the National Council for Crime Prevention. (For more information: Natasha Bertaud – Tel.: +32 229 67456; Tove Ernst – Tel.: +32 229 86764; Katarzyna Kolanko – Tel.: +32 229 63444)

[Upcoming events](#) of the European Commission (ex-Top News)

[Frequently asked questions: Action Plan on the Reduction of Non-Performing Loans in Europe](#)

The term 'non-performing loans' refers to loans where the borrower – either a

company or a physical person – is not able to repay a bank loan, i.e. is unable to make scheduled payments to cover interest or capital reimbursements. When the payments are more than 90 days past due, or the loan is assessed as unlikely to be repaid by the borrower, it is classified as an NPL.

During financial crises, the number of companies and citizens facing payment difficulties increases. This, in turn, means that fewer borrowers are able to pay back their loans to banks. As a consequence, banks are not able to recover the value of their loans as the amount of NPLs on banks' balance sheets increases. This has a negative impact on the economy as high levels of NPLs affect a bank's short and longer-term performance:

- First, banks need to set aside – or 'provision for' – more money to cover the NPLs' incurred and expected losses. These provisions reduce bank profitability and reduce the bank's regulatory capital, which may affect the bank's viability.
- Second, banks have to dedicate high amounts of their financial and human resources to dealing with NPLs. This reduces their capacity to lend, including to small and medium-sized enterprises (SMEs) which rely on bank lending to a much greater extent than larger companies. This in turn affects economic growth and job creation.

In the past, high levels of NPLs have led to particularly difficult situations in some Member States, negatively impacting financial stability.

What has the Commission done so far to tackle NPLs?

Since the financial crisis, making banks stronger has been one of the Commission's main goals. It has put forward over 50 proposals to increase the resilience of the financial sector and help protect the economy. Moreover, the Commission has been working together with Member States concerned to address banks' high level of NPLs, including through setting up ad hoc and system-wide impaired assets measures compatible with state aid rules, as well as through the [European Semester](#). Member States, supervisors and banks themselves have made great progress in cleaning up bank balance sheets since the crisis. The Commission's First Progress Report on the Reduction of Non-Performing Loans in Europe, published on 18 January 2018, showed that risk reduction measures taken since the financial crisis have resulted in a significant improvement in banks' solvency, leverage and liquidity positions. It is important to build on these efforts, consolidate the trend and prevent the build-up of new NPLs.

More recently, the Commission has also put forward several further substantial measures to reduce risks and enhance the resilience of the EU banking sector. For example, in November 2016, the Commission proposed a significant legislative package to review the Bank Recovery and Resolution Directive (BRRD), the Single Resolution Mechanism Regulation (SRMR), the Capital Requirements Directive IV (CRDIV) and Capital Requirements Regulation (CRR) with the objective of further reducing risks in the banking sector. That same year, the Commission also adopted a proposal for a Directive on preventive restructuring procedures, second chance for entrepreneurs, and the

efficiency of insolvency frameworks. Effective insolvency rules are essential for the reduction of NPLs and for a well-functioning Capital Markets Union. The Commission now, once again, calls on the European Parliament and the Council to show determination on these important files in order to facilitate their swift adoption.

In line with the ECOFIN Action Plan, the Commission announced in its Communication on Completing the Banking Union in October 2017 that it would present a comprehensive package for tackling high NPL ratios by March 2018. In addition, the [Commission's EMU package of 6 December 2017](#) presented a roadmap and concrete proposals for the deepening of Europe's Economic and Monetary Union.

What is the Commission proposing today and why?

Today's ambitious package of measures is the Commission's response to the call by the Council for further measures to address the problem of non-performing loans in the EU as set out in its [Action Plan](#) of July 2017.

The proposal consists of the following key measures:

1. Ensuring sufficient loss coverage by banks for future NPLs

- To prevent a future build-up of non-performing loans, the Commission is proposing a Regulation that amends the existing Capital Requirement Regulation (CRR) for banks. The proposal establishes common minimum levels for the amount of money banks need to set aside to cover losses caused by future loans that turn non-performing. In case a bank does not meet the applicable minimum level, deductions from own funds would apply.
- The minimum coverage levels will act as a **statutory prudential backstop** for newly originated loans that become non-performing. The Commission further proposes to introduce a common definition of non-performing exposures (NPE), in accordance with the one already used for supervisory reporting purposes.

2. Providing more efficient value recovery from secured loans

- The Directive on credit servicers, credit purchasers and the recovery of collateral will provide secured creditors with an efficient mechanism to recover the value from loans guaranteed with collateral when the borrower of a loan defaults.
- Facilitating **out-of-court collateral enforcement** will allow banks to seize the collateral that underpins a loan in an expedited way, without going to court.
- Out-of-court collateral enforcement is strictly limited to loans granted to businesses. **Consumer loans are excluded**. It is only applicable where the business explicitly agreed to it when concluding the loan contract.

3. Establishing a secondary market for NPLs

- The Directive on credit servicers, credit purchasers and the recovery of collateral will also foster the development of **secondary markets** for

NPLs by removing undue barriers to credit servicing and to the transfer of bank loans to third parties across the EU ('passporting').

- The proposal defines the activities of credit servicers, sets common standards for authorisation and supervision and imposes conduct rules across the EU.
- Purchasers of bank loans are required to notify authorities when acquiring a loan. Third-country purchasers of consumer loans are required to use authorised EU credit servicers.
- Consumer protection is ensured by legal safeguards and transparency rules so that the transfer of a loan does not affect the rights and interest of the borrower.

4. Providing technical guidance on how to set up national Asset Management Companies (AMCs)

- A non-binding **blueprint for how national Asset Management Companies (AMCs)** or other measures can be set up in compliance with existing EU banking and State aid rules, should they find it useful.
- While considering AMCs with a State aid element as an exceptional solution, the blueprint clarifies the permissible design and state aid conditions of AMCs receiving public support.
- The blueprint suggests a number of common principles, on the set-up, governance and operations of AMCs. The blueprint draws on experience and best practices from AMCs or other measures already set up in Member States.

In addition, the Commission is also presenting today its second progress report on the reduction of NPLs in Europe.

What does the latest progress report on NPLs show?

The second progress report published today shows that the trend of falling NPL ratios is continuing and that the quality of banks' loans portfolios improved. This is the result of continuing economic growth in the EU as well as the outcome of various pro-active measures, including sales of NPL portfolios.

Key findings:

- The latest data indicates that the NPL ratio dropped to 4.4% in Q3 2017, bringing it down by roughly 1 percentage point year-on-year and at its lowest level since Q4 2014. This is the result of a decrease in the volume of NPLs, as well as a rise of the volume of loans in the EU. The provisioning ratio has remained stable, amounting to 50.7% in Q3 2017.
- Nevertheless, the total volume of NPLs in the EU remains well above pre-crisis levels (€910 billion). Uneven NPL ratios across the EU – ranging from 0.7% to 46.7% – and slow progress in some Member States remain a source of concern.
- Structural obstacles prevent a faster fall in NPL stocks: provisioning remains slow and insufficient to effectively resolve and prevent a future

build-up of NPLs. Furthermore, the secondary market for NPLs does not yet substantially support the reduction of NPLs. At the same time, debt restructuring, insolvency and debt recovery processes are still too slow and lack legal certainty in some cases.

Why do you want to develop secondary markets for NPLs?

A functioning secondary market allows banks to clean their balance sheets by selling NPLs to interested buyers. Without this, banks have to keep NPLs on their balance sheets until they are fully written off. This reduces their profitability and capacity to lend to new customers.

There are currently too few investors willing and able to buy NPLs relative to the large amount of NPLs on European banks' balance sheets. Market entry is difficult for new investors because the business of loan sales is complex and the relevant rules differ considerably across the EU.

The Directive proposed today:

- specifies entry conditions for loan servicers. Usually, NPL investors do not ask the bank from which they bought the NPLs to continue administering and collecting the loans. Instead, they often delegate these activities to independent firms called loan servicers. A lack of loan servicers discourages NPL investors from entering the market. Therefore, entry conditions and conduct rules for loan servicers play a crucial role in developing a secondary market for NPLs;
- reduces legal uncertainty, by defining what credit servicers are and what activities they can perform;
- develops an EU passport, enabling actors to conduct business across Member States;
- helps credit purchasers in obtaining the information they need to properly analyse and value the portfolios they are interested in.

How will you ensure consumer protection?

Today's proposals strike an important balance between enabling banks to recover the value of loans they provided, while protecting European citizens and business from reckless credit enforcement. The proposal complies with existing legal standards, especially those related to borrower and data protection.

Credit servicers need to demonstrate an organisational structure that allows them to comply with borrower rights and data protection. They are also required to set up procedures to deal with vulnerable groups and borrower complaints and they need to inform borrowers about the supervisors that follow up on borrowers' complaints. Credit servicers are not allowed to request fees to deal with complaints. Supervisors are empowered to review this, to follow up on borrower complaints and to apply sanctions if necessary.

Furthermore, credit purchasers need to respect the rights and obligations of the initial credit agreement and have the obligation to inform supervisors

whether they enforce the debt directly or delegate this to a dedicated credit servicer. If the loan purchaser is from a third country and bought consumer loans, it is obliged to use an EU-supervised loan servicer.

Why does the Action Plan foster the availability of out-of-court collateral enforcement?

Effective out-of-court enforcement can help prevent the accumulation of NPLs. It enables banks to recover value more swiftly from loans granted to companies and entrepreneurs. This is why it is also a priority action of the Mid-term Review of the Capital Markets Union Action Plan.

Out-of-court enforcement mechanisms provide secured creditors with legal instruments to enforce collateral more quickly. However, these solutions currently do not exist in all Member States for all types of collateral. Convergence in enforcement would increase lending to companies, in particular to small and medium-sized enterprises (SMEs) and across borders.

Today's proposal complements the [2016 Commission proposal](#) on preventative business restructuring and second chance, which is now being discussed by the European Parliament and Member States.

How would the new out-of-court enforcement work?

The proposed new mechanism for out-of-court accelerated collateral enforcement would have to be agreed between a bank and borrower upfront, normally when the loan is granted. It is not available for consumer loans and for real estate serving as the borrower's primary residence.

Where this new mechanism has been agreed between the parties and if the borrower defaults on the loan, the collateral would be valued and then sold, with proceeds turned over to the creditor. The proposed rules aim to balance the creditor's and the borrower's interests in various ways. For example:

- The creditor needs to give the borrower a certain amount of time to make the due payments and avert enforcement.
- The valuation and sale would have to follow certain rules, e.g. be via public auction depending on what Member States choose, to ensure a fair price.
- The borrower has the right to go to court in case these rules are disobeyed.
- The creditor only gets to keep the proceeds to the extent necessary to cover the outstanding amounts on the loan. Excess proceeds are paid out to the borrower.
- Member States may decide that where proceeds from the collateral fall short of the outstanding amount on the loan, the loan shall nevertheless be considered as fully settled.

Why do we need a statutory prudential backstop?

If banks do not put aside – or provision – enough money for NPLs, they cannot write those loans off their balance sheets and bad loans can start to pile up. This can undermine the bank's profitability, its solvency and as a

consequence its long-term viability. Although average provisioning levels have recently increased across Member States, loss recognition is still low and too slow to effectively resolve NPLs. This is why existing rules need to be complemented by a statutory prudential tool that acts as a backstop against future build-up of insufficiently provisioned NPLs.

How does the statutory backstop interact with existing accounting rules and supervisory powers?

Legally, the backstop is a minimum (i.e. "Pillar 1") requirement directly applicable to all banks that are subject to the Capital Requirements Regulation. Banks would need to continue to recognise accounting provisions in line with their assessment and applicable accounting standards. Those provisions, including potential increases in provisions as a result of new accounting standard IFRS 9, would be taken fully into account for the purposes of the prudential backstop.

Competent authorities already have several tools at their disposal that can be used to address NPLs in specific banks. Their supervisory powers concern bank-specific measures (i.e. "Pillar 2") in accordance with the Capital Requirements Directive. Most notably, competent authorities can decide on a case-by-case basis that, despite the application of the statutory prudential backstop, the NPLs of a bank are not sufficiently covered. In those cases they can require individual banks to increase provisioning levels.

With the view of ensuring consistency in the prudential framework, the common definition of non-performing exposures (NPE), which is already used for supervisory reporting purposes, would also apply in the context of the statutory prudential backstop.

How does the statutory backstop work?

The statutory prudential backstop would consist of common minimum coverage levels against which banks would need to compare the amounts of money they set aside to cover incurred and expected losses on newly-originated loans that become non-performing in future. In case the amounts set aside by a bank were below the applicable minimum level, the difference would be deducted from its own funds. This would prevent new NPLs from building up by ensuring that losses are sufficiently covered.

The common minimum coverage level would increase gradually depending on how long an exposure has been classified as non-performing. The annual increase of the minimum coverage requirement is lower during the first years after the classification of an exposure as non-performing. This gradual increase reflects the fact that the longer an exposure has been non-performing, the lower the probability to recover the amounts due.

Different coverage requirements apply, depending on the classification of the NPLs as 'unsecured' or 'secured'.

How does the classification of an NPL as 'unsecured' or 'secured' impact its treatment under the proposal?

– **Secured NPLs** are in general less risky than unsecured NPLs as they give the bank a specific claim on an asset or against a third party (i.e. the loan may be backed by collateral, for example a house, or covered by a guarantee from a third party). At the same time, depending on the type of collateral/guarantee provided, it can take some additional time to enforce that specific claim (for example, enforcing a claim on securities offered as collateral takes less time than securing a claim on a property offered as collateral). The proposal takes this into account by applying minimum coverage levels that increase gradually over time. Only if the bank has not been able to realise the collateral securing the loan after 8 years, the collateral would be seen as ineffective and the bank would be required to fully cover the secured NPLs.

– **Unsecured NPLs** require higher and timelier minimum loss coverage by the creditor bank than secured NPLs because they are not secured by collateral or guarantees and are therefore considered riskier than secured NPLs. Consequently, the maximum coverage requirement applies as of the second year for unsecured NPLs.

	Minimum coverage level (in %)							
After year	1	2	3	4	5	6	7	8
Secured	5	10	17.5	27.5	40	55	75	100
Unsecured	35	100						

Does the backstop differentiate between NPLs also based on other types of characteristics?

The level of the backstop also depends on whether the debtor is still paying its instalments. A loan can be an NPL not only because it is past-due, but also because it is considered unlikely-to-pay in the future, albeit it is still paying currently. In cases where the bank still receives full payment from the borrower without excessive delay, the losses for the bank are in general expected to be lower and it is justified to apply a lower minimum coverage requirement (up to 80%, instead of up to 100%).

What are Asset Management Companies (AMCs) and why do we need a European blueprint?

Experience in several Member States has demonstrated that national asset management companies can be an effective tool to help banks clean up certain parts of their balance sheets under certain conditions. Transferring non-performing loans from banks to an AMC allows banks to focus on their core task of lending and offering services to households and firms.

These companies have proven useful and can contribute to the repair of the banks' balance sheets by:

- improving information and transparency in the secondary market for NPLs; and
- encouraging new investors to enter the market.

Generally, AMCs can be set up to deal with NPLs from individual banks or to

manage bad loans from several banks in a Member State. They can be either privately or publicly owned and receive various degrees of public support, if set up in line with state aid rules.

A European blueprint helps Member States interested to set up national AMCs in full compliance with EU banking and State aid rules. It is based on existing market experience and sets out best practices on how AMCs can be established and managed.

What are the key guidelines set out in the blueprint?

The blueprint provides practical, non-binding guidance for the design and set-up of AMCs at the national level, building upon best practices from past experiences in Member States, to the extent applicable. AMCs can be private or (partly) publicly supported with no need for State aid, if the State can be considered to act as any other economic agent. The option of an AMC involving State aid should not be seen as the default solution.

That said, considering AMCs with a State aid element as an exceptional solution, the blueprint aims to clarify the permissible design for such AMCs, fully consistent with the EU legal framework, particularly the BRRD, the SRMR and State aid rules.

The blueprint suggests a number of common principles, such as:

- the relevant asset perimeter;
- the participation perimeter;
- considerations on the asset-size threshold;
- asset valuation rules;
- the appropriate capital structure; and
- the governance and operations of the AMC.

In addition, the blueprint describes certain alternative impaired asset relief measures that do not constitute State aid, such as market-conform State guarantees enabling the securitisation of NPLs. The Commission has in the past years also assessed other measures proposed by Member States to deal with legacy NPLs and will continue to do so in individual cases, in order to ensure that these measures fully respect the BRRD, SRMR and State aid rules.

[Indicative media programme – European Council, 22 and 23 March 2018](#)

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[Reducing Risk in the Banking Union: Commission presents measures to accelerate the reduction of non-performing loans in the banking sector](#)

With today's far-reaching measures, the Commission is delivering on the Council's Action Plan to address the high stock of NPLs and prevent their possible future accumulation. It builds on ongoing efforts by Member States, supervisors, credit institutions and the EU: this has led to stocks of NPLs declining in recent years across banks and EU countries.

Despite good progress, however, more needs to be done to address remaining stocks of NPLs and their possible build-up in the future. Today's measures aim to put the EU banking sector on an even sounder footing for future generations, with rock-solid banks that perform their indispensable role in financing the economy and supporting growth. The package complements work on the Capital Markets Union and is an essential step towards the completion of the Banking Union, one of the immediate priorities agreed by EU leaders to strengthen Europe's Economic and Monetary Union.

In addition, the Commission is also presenting its second progress report on the reduction of NPLs in Europe, showing that the decline of NPL stocks is continuing.

Valdis **Dombrovskis**, Vice-President for Financial Stability, Financial Services and Capital Markets Union, said: *"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.”

This package sets out a comprehensive approach with a mix of complementary policy actions that target four key areas:

- Ensuring that **banks set aside funds** to cover the risks associated with loans issued in the future that may become non-performing.
- Encouraging the **development of secondary markets** where banks can sell their NPLs to credit servicers and investors.
- **Facilitating debt recovery**, as a complement to the insolvency and business restructuring proposal put forward in November 2016.
- Assisting Member States that so wish in the restructuring of banks, by providing non-binding guidance – a blueprint – for establishing Asset Management Companies (AMCs) or other measures dealing with NPLs.

In particular, the proposals include the following key elements:

1. Ensuring sufficient loss coverage by banks for future NPLs

- A Regulation amending the [Capital Requirements Regulation \(CRR\)](#) introduces common minimum coverage levels for newly originated loans that become non-performing. In case a bank does not meet the applicable minimum level, deductions from banks' own funds would apply.
- The measure addresses the risk of not having enough funds to cover losses on future NPLs and prevents their accumulation.

2. Enabling accelerated out-of-court enforcement of loans secured by collateral

- Under the proposals, banks and borrowers can agree in advance on an accelerated mechanism to recover the value from loans guaranteed with collateral.
- If a borrower defaults, the bank or other secured creditor is able to recover the collateral that underpins a loan in an expedited way, without going to court.
- Out-of-court collateral enforcement is strictly limited to loans granted to businesses and subject to safeguards. Consumer loans are excluded.

3. Further developing secondary markets for NPLs

- The proposal will foster the development of secondary markets for NPLs by harmonising requirements and creating a single market for credit servicing and the transfer of bank loans to third parties across the EU.
- The proposed Directive defines the activities of credit servicers, sets common standards for authorisation and supervision and imposes conduct rules across the EU. It means that operators respecting those rules can be active throughout the EU without separate national authorisation requirements.
- Purchasers of bank loans are required to notify authorities when acquiring a loan. Third-country purchasers of consumer loans are

required to use authorised EU credit servicers. Consumer protection is ensured by legal safeguards and transparency rules so that the transfer of a loan does not affect the legitimate rights and interest of the borrower.

4. A technical blueprint for how to set up a national Asset Management Companies (AMCs)

- The non-binding blueprint guides Member States on how they can set up national AMCs, should they find it useful, in full compliance with EU banking and State aid rules.
- While considering AMCs with a State aid element as an exceptional solution, the blueprint clarifies the permissible design of AMCs receiving public support. The blueprint also sets out alternative impaired asset measures.
- The blueprint suggests a number of common principles on the set-up, governance and operations of AMCs. The blueprint draws on experience and best practices from AMCs already set up in Member States.

Background

Banking Sector risks have been significantly reduced in the EU in recent years. Banks under the supervision of the European Central Bank have raised €234 billion of additional capital since 2014 and have much better liquidity buffers. This is thanks to significant regulatory measures already adopted and to be further strengthened by the [Bank Risk Reduction Package](#) which the Commission proposed in November 2016.

Although significant progress has been made, NPLs are one of the key remaining legacy risks in Europe's banking system.

Addressing the high stock of NPLs and their possible future accumulation is essential to complete Banking Union. NPLs are loans where the borrower is unable to make the scheduled payments to cover interest or capital reimbursements. When the payments are more than 90 days past due, or the loan is assessed as unlikely to be repaid by the borrower, it is classified as an NPL. The financial crisis and subsequent recessions led more borrowers being unable to pay back their loans, as more companies and people faced continued payment difficulties, or even bankruptcy. This was particularly pronounced in Member States that faced long or deep recessions, with banks in those countries building up NPLs on their books.

The Commission proposed in October 2017 to make NPL reduction measures an essential part of the process of completing Banking Union by sharing and reducing risk in parallel. This was welcomed by the European Parliament and Council.

With today's proposals, the European Commission is following up on the [Action Plan on reducing non-performing loans \(NPLs\)](#), agreed by Europe's finance ministers in July 2017. In the [Commission Communication on Completing the Banking Union](#) (published in October 2017) and in the [First Progress Report](#) (published on 18 January 2018), the Commission committed to effectively

implementing those elements of the Action Plan for which it is responsible.

More information:

[MEMO](#)

[Factsheet](#)

[Texts of the proposals and background documents](#)