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:

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Factsheet

Texts of the proposals and background documents