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.