EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Andrea ENRIA
Chair of the Supervisory Board

Mr Chris MacManus
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 30 November 2023

Re: Your letter (QZ-028)

Honourable Member of the European Parliament, dear Mr MacManus,

Thank you for your letter on non-performing loans (NPLs), which was passed on to me by Ms Irene Tinagli, Chair of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 26 October 2023.

Since the inception of the Single Supervisory Mechanism, significant progress has been made in cleaning up banks' balance sheets. Thanks to the joint efforts of banks, policymakers and supervisors, the level of NPLs in the European banking sector has been reduced from more than €1 trillion in 2014 to less than €345 billion in the second quarter of 2023. In addition to supporting financial stability, these reduction efforts also allowed banks to sustain the provision of credit to the economy, notably to households and small businesses, and thereby to contribute to economic growth.

The successful resolution of NPLs requires a well-functioning legal framework which provides legal certainty to all parties and provides incentives for the repayment of loans so that banks can continue to lend, benefiting borrowers and lenders alike.

Significant progress has been made since 2014 in removing impediments to the timely resolution of NPLs, creating broader and deeper secondary markets for NPLs and developing a credit servicing industry. The 2017 Council of the European Union action plan on NPLs[1] included several legislative initiatives to support banks' progress towards reducing their NPLs and mitigate the build-up of large NPL stocks, such as the Restructuring and Insolvency Directive[2] adopted in 2019, which requires Member States to maintain or

[1] See "Council conclusions on Action plan to tackle non-performing loans in Europe", *press release*, Council of the EU, 11 July 2017, available at: https://www.consilium.europa.eu/en/press/press-releases/2017/07/11/conclusions-non-performing-loans/.

[2] Directive (EU) 2019/1023 of the European Parliament and of the Council of 20 June 2019 on preventative restructuring frameworks, on discharge of debt and disqualifications, and on measures to increase the efficiency of procedures concerning restructuring, insolvency and discharge of debt, and amending Directive (EU) 2017/1132 (Directive on restructuring and insolvency), available at: https://eur-lex.europa.eu/eli/dir/2019/1023/oj.

introduce effective preventive restructuring frameworks. The update to the Credit Servicing Directive[3] – which is about to enter into force – and the European Commission's December 2022 proposal for a directive to harmonise certain aspects of insolvency law[4] are further important steps to support the reduction of NPLs. Moreover, to develop secondary markets for NPLs, it is important to continue to make progress on enhancing the quality and comparability of NPL data across Member States, for instance by implementing the European Banking Authority's technical standards on NPL transaction data templates.

In addition to EU-level measures, some Member States have also pursued relevant reforms at national level. For example, Italy and Greece have implemented relatively successful public support frameworks for the securitisation of NPLs. Furthermore, in the context of the Recovery and Resilience Facility, some Member States have committed to measures to step up the clean-up and restructuring of their balance sheets, and to review their frameworks for insolvency and collateral enforcement.

Given the significant efforts undertaken over the past decade to reduce the level of NPLs on banks' balance sheets, and as we stated in a recent blog post[5], national initiatives that have the potential to undermine the progress made are a cause for concern from the perspective of European banking supervision. Concrete initiatives in this direction include proposals under discussion in Italy and Cyprus. In Italy, one proposal would give certain borrowers the option to buy back their impaired loans, even if these NPLs have already been sold to third parties. The retroactive effect of such provisions could undermine the proper functioning of secondary markets for NPLs. Similarly, recent legislative proposals in Cyprus – which would allow non-performing borrowers facing foreclosure procedures to appeal to the court and obtain a suspension order until the dispute is resolved – could lead to increased legal uncertainty and undue delays in the resolution of NPLs related to certain residential mortgages.

The ECB acknowledges that the NPL resolution process may have social implications and, therefore, recognises the importance of devising measures to support distressed borrowers. In our view, policymakers have a variety of tools available to achieve that objective without undermining the NPL resolution process. For example, fiscal support measures, such as debt servicing support to vulnerable households, can also form part of an NPL resolution strategy to find balanced and sustainable solutions for both borrowers and lenders. From a supervisory point of view, it is important that any policy measure adopted to mitigate the social consequences of NPL disposals upholds the important objective of reducing the level of NPLs.

Yours sincerely,

[signed]

Andrea Enria

---

3 Directive (EU) 2021/2167 of the European Parliament and of the Council of 24 November 2021 on credit servicers and credit purchasers and amending Directives 2008/48/EC and 2014/17/EU, available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32021L2167.

4 Proposal for a Directive of the European Parliament and of the Council harmonising certain aspects of insolvency law, available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A52022PC0702.

5 See McCaul, Elizabeth and Ibel, Korbinian, "Keeping a tight lid on non-performing loans", *The Supervision Blog*, ECB, Frankfurt am Main, 10 October 2023, available at: https://www.bankingsupervision.europa.eu/press/blog/2023/html/ssm.blog231010~28ede429ea.en.html.