EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Template for comments

Consultation on the draft ECB Guidance for banks on non-performing loans

Institution/Company

Contact person

Mr/Ms

First name

[redacted]

Surname

[redacted]

Email address

[redacted]

Telephone number

[redacted]

Overall, the draft seems void of links to rules and guidelies that try to protect banks from building high NPL-levels. Hence, the guidelines only deals with the "how can we handle an issue"-aspect and neglegts to point to the "how do we avoid having an issue"-aspect of the regulations.

Template for comments

Consultation on the draft ECB Guidance for banks on non-performing loans

Please enter all your feedback in this list.
When entering your feedback, please make sure:
- **that each comment only deals with a single issue;**
- **to indicate the relevant article/chapter/paragraph, where appropriate;**
- **to indicate whether your comment is a proposed amendment, clarification or deletion.**

Deadline:	15 November 2016

ID	Chapter	Section	Page	Type of comment	Detailed comment	Concise statement why your comment should be taken on board
1	1 - Intro	1.1	4	Clarification	Per se, a high level of NPLs is not worrisome. However, if write-downs have not been conducted properly and/or collateral is improperly valued, there is an issue of inherent/hidden losses. Although this may be known to practitioners, it may be worth to make this point in the guideline.	Increases understanding
2	1 - Intro	1.1	4	Clarification	"At the same time, it is acknowledged that economic recovery is also an important enabler of NPL resolution".	Increases understanding
3	2 - Strat	2.2.2	9	Amendment	This is true, maybe one could afford some words about the relation between the state of the economy and NPL-levels. For example, in a phase of economic recovery, NPL-levels tend to decrease because the default rate decreases, recovery rates increase as do the valuations of collateral. At the same time, financial institutions can afford to apply write-downs and or loan loss provisions more liberally. In an economic downturn, the levels of NPL would usually increase, because more defaults will occur, recovery will become less likely and collateral values will compress. Financial institutions will find it harder to apply loan loss provisions and write-offs which increases the danger for hidden losses in sub- and non-performing loan portfolios.	Practical information
4	2 - Strat	2.3.1	11	Amendment	NPL investor demand: Typically, an investor will also consider the "time to resolution", i.e. the time it takes to exit a certain NPL position in order to monetarise gains. Although investors will ultimately apply their own methodology, many would like to know the potential vendor's opinion on how long it will take to find a resolution for a non-performing loan.	Adds an angle which helps financial institutions improve
5	2 - Strat	2.3.3	14	Amendment	"… e.g. the need for enhancing the quality of NPL exposure data in order to be ready for future investor transactions" - A better data base also helps with the management of NPLs as well as in legal proceedings.	Includes standard business practice
6	2 - Strat	2.5	15	Clarification	It may be beneficial to add a reference to (interim) testing and re-adjustment as necessary to the list of bullet points. Any plan should be evaluated for its observed results and the result of the review should be used to adapt the plan if deemed appropriate.	Incorporates flexibility
7	3 - Gov	3.3.1	19	Clarification	Goals and incentives should allow for flexibility to accommodate for changes in economic or market environments.	Close a gap
8	3 - Gov	3.3.2	22	Clarification	One might also afford a few words about partial/full recovery of NPLs in a work out phase through improved economic conditions of the borrower (or third parties willing to contribute to the repayment). Foreclosure and liquidation do not represent all relevant scenarios.	Incorporates flexibility
9	3 - Gov	3.3.3	24	Clarification	Financial institutions should be given a choice whether segmentation by customer type or principal collateral (e.g. national real estate, international real estate, …) is more prudent	Increases understanding