ASSILEA
Associazione Italiana Leasing

Assilea's comments on the ECB's Draft guidance to banks on non-performing loans

Assilea, the Italian Leasing Association, represents the Italian leasing industry. Our members are leasing companies classed into generalist banks, specialist banks, non-banking financial intermediaries, brokers and dealers, long-term rental companies, outsourcers specialized in the leasing market. The Association's key task is to carry out institutional activities with a view to providing information and assistance to its members and contributing towards the solution of leasing-related issues at different levels, in different domestic and international venues.

Assilea is member of Leaseurope (the European Leasing Federation) and of ABI (the Italian Banking Association) and has actively participated to the drafting of the Position Papers released by the above mentioned Federation and Association.

ID	Chapter	Section	Page	Type of comment	Detailed comment	Concise statement why your comment should be taken on board
1	2 - Strat			Amendment	In Banking groups, NPL targets and strategies are always decided by the mother bank and, for some NPL specific segments, they are implemented by the controlled entities. In fact, the NPL operational plan is supposed to be implemented at a group level when the portfolio segmentation corresponds, for some segments, to different legal entities' portfolios (e.g. in consumer credit, leasing, mortgages financing etc.). In these latter situations, high level information, such as macroeconomic data, statistics of time to recovery and/or back-testing of the estimated cash flows from property collateral liquidation, should be asked to the mother bank when internal statistics are not sufficient.	Banking infra-group relationships in the NPL strategy, operating model and information sharing should be considered in the document
2	2 - Strat	2.2.2	9	Clarification	In the NPL strategy, among the macroeconomic conditions, real estate sector dynamics and its specific relevant sub-segments should be taken into consideration. ECB's guidance should include and address also the situations where the asset concentration of the NPL collators is so high (e.g. commercial real estate in specific economic districts) that a liquidation process put in place by one or two main banks could determine important shocks to the resale market of those assets.	When the asset concentration of the NPL collators is very high, a massive liquidation of the NPL portfolio would lead to a collapse in the collateral market
3	2 - Strat	2.2.2	9	Clarification	In specific segments and national/regional markets, data set and benchmarks on time to recovery and resell prices of specific assets could be obtained by external database and/or from National Associations' statistics.	Internal data could be not sufficient to analyze the external factors that should be taken into account by banks when setting their strategy.
4	2 - Strat	2.3.3	13,14	Amendment	NPL strategy and operational plan should be designed to fit different portfolios and financing products. NPL liquidation processes may strongly differ according to the legal contract structure of the loan. In NPL leasing management, leasing contracts cannot be always treated as, or grouped with, mortgages. In the leasing contract, in fact, the lessee pays for the right of use of the asset and the lessor maintains the property of the leased asset; the link between the credit and the asset continues to exist even when the contract is non-performing. In order to liquidate and/or writing-off a leasing position, a sell or a liquidation of the leased asset is required. This feature of the leasing contract is really important when a bank decides for a credit disposal. In the absence of a writing-off of the lessee's position, NPL leasing exposure disposals should always include the leased asset. This means that when a major banking group organize a NPL massive sale, the leased assets should follow and remain linked to the sold credits, otherwise juridical, regulatory and tax issues could arise that would compromise the success of the leasing NPL disposal. In our opinion, specific issues linked to the leasing product should be introduced in the document.	For NPL leasing exposure the strong link between the asset and the credit should be adequately considered in the NPL strategy and in the liquidation process
5	3 - Gov	3.3.1	18	Clarification	NPL operating model should be proportionate to the bank's nature and organization. WUs dimension and separation level could vary from a minimum of different skills and separations of single experts to a maximum of separate WUs legal entities. We would like to have the confirmation that a "Chinese walls" system is not necessary to comply with this guidance. It would also be important to understand if when controls and IT infrastructure are requested to mitigate the potential conflicts of interest, this would not imply a separate IT system for each different WU. This would contradict what explained in par. 3.3.4 about the adequate technical resources to manage NPL, providing a unique up-to-date situation of the workout process.	For some business lines or exposures (e.g. those requiring special know-how, such as asset based lending) the implementation of a fully separate organizational unit may not be possible.
6		3.3.2	21,22	Amendment	In the NPLs segmentation process, leased assets should be treated separately from other loans' underlying collaterals, both in the corporate and in the retail NPL portfolio.	In leasing contracts, the lessor (bank) maintains the ownership of the leased asset
7	3 - Gov	3.3.4	24,25	Clarification	The IT system should be integrated in the banking group's one, in order to manage the whole NPL position and exposure of the client within the group. Technical infrastructures that give access to the early arrears borrower information should be also integrated with the impairment calculation, coherently with the IFRS 9 standard.	For a correct management of the NPL, technical resources should be properly integrated in banking group IT system and in the credit risk and accounting management system.
8	3 - Gov	3.5.3	30	Deletion	The requested solution to monitor long-term (sustainable structural) forbearances separately from short-term (temporary) forbearances is burdensome. It would be very costly in terms of organization and IT costs and would not correspond to a different treatment of the two classes of forborne exposures in the NPE definition proposed in section 5. In fact, even if a forbearance solution is a temporary/short-term one, the classification of this position as forborne will be maintained at least two years.	The two years minimum period of classification among the forborne exposures is not coherent with the concept of a "temporary"/short-term forbearance.
9	3 - Gov	3.6		Clarification	If the banks' client has only long-term financing debts with that institution, an update of the EWIs could only lead the bank to increase the level of provisions related to the exposures of that client or to consider a possible forbearance solution. This because, if the client is not defaulted neither presents past due positions, even in the presence of a worsening of the EWIs, the contract resolution is not possible neither is it possible to activate credit collection procedures nor a liquidation process.	EWIs impact in the NPL management is limited in the long term financing sector, when the client is not defaulted nor presents past due positions.
10	4 - Forb	4.3	43	Clarification	A comparison is asked between the net present value of the envisaged forbearance solution and other available liquidation options. Is it possible to use the LGD estimation as a proxy of the "other available liquidation options"?	The time effect due to the comparison of the forbearance lower duration with the more time consuming liquidation process could be taken into account with specific discount rates applied to the LGD figures.
11	4 - Forb	4.3	43	Clarification	In long-term financing (like leasing operation) forbearance measures are applied with the aim to support a company going ahead into an economic adverse section of its lifecycle. Firstly, The bank evaluates the credit worthiness of the customer and, if this evaluation is positive, the second part of the process starts. Only if the forbearance measure fulfills the credit granting profile and the credit sustainability of both interested parts (bank and customer) the measure itself takes place. The forbearance measure reduces liquidity solutions and is a low cost solution both for bank and worth clients. Leasing companies with high stock of repossessed asset ready to be sold could also manage the incoming NPL costs - reducing liquidation, legal and remarketing costs - applying these features. Otherwise the liquidation process starts with the aim to repossess and sell the asset. The comparison between forbearance and liquidation process could be taken into account if you replace a forbearance measure, but also in this case, the economic based agreement between bank and client should be considered at first. Leveraging the forbearance measure is in most of cases the only way out to positively resolve long term financing without litigation.	Leveraging the forbearance measure is in most of cases the only way out to positively resolve long term financing without litigation.
12	7 - Coll	7.2.3	87,88	Deletion	The draft guidance introduces a specific threshold in terms of maximum NPL loan gross value (300,000 euro) for the use of indexation or any automated processes for immovable property collaterals' valuation. This threshold is really low, considering the average values of real estate properties and the higher average values of not residential properties. Banks should be allowed to set their thresholds in relation to their collateral portfolio characteristics and to the availability of statistical data in the different real estate markets.	Banks should be allowed to set their thresholds for indexed/automated real estate valuation, in relation to their collateral portfolio characteristics and to the availability of statistical data in the different real estate markets.
13	7 - Coll	7.5	94,95	Clarification	As specified in the "Stocktake of supervisory practices and legal frameworks related to NPLs" (page 90): In Italy "…Legally, the disposal of collateral occurs only through auctions managed by the courts. However, foreclosures are currently not significant for Italian banks". In this situation, it is difficult to apply the foreclosed asset guidance's rules and, as the auctions are managed by the court, it is not always possible to fix a one-year term for the sale of the asset, especially when it is a real estate asset. For NPL leasing exposures, should we apply these guidance rules to all the repossessed assets - even when a credit position towards the client still exists - or should we only apply them after the writing-off of the exposure and the repossession of the asset? Is it possible and compliant with the guidance to fix a plurennial programme of sale of the repossessed real estate assets?	Foreclosed asset are not significant for Italian banks, specific clarifications are needed for the treatment of the leased repossessed asset.
14	7 - Coll	7.5	95	Clarification	Foreclosed assets received should be valued at the lower of (i) the amount of the financial assets applied, treating the asset foreclosed or received in payment of debt as collateral (ii) the fair value of the repossessed asset, less selling costs. Does this means that they should be valued at the minimum between the underlying collateralized debt and the asset fair value (net of resale costs)?	This valuation methodology seems to fit more properly to auction repossession and it is not clear how to apply it to leased repossessed assets
15	Annex - 2	13	101,102	Amendment	In the NPLs segmentation process, leased assets should be treated separately from other loans' underlying collaterals, both in the corporate and in the retail NPL portfolio. Therefore, a specific detail should be introduced in "Annex 2 Sample of NPL segmentation criteria in retail". In par. 13 "Type of underlying collateral" "(c) "leased assets" category might be introduced, with the distinction of the main sub-categories: (i) equipment; (ii) automotive; (iii) real estate; (iv) other more specific assets (e.g. ships, renewable energy plants, utilities, etc.).	In leasing contracts, the lessor (bank) maintains the ownership of the leased asset