

# Single Rulebook Q&A

<b>Question ID</b>	2020_5532
<b>Status</b>	Final Q&A
<b>Legal act</b>	Regulation (EU) 2017/2402 (SecReg)
<b>Topic</b>	Simple Transparent and Standardised securitisation
<b>Article</b>	24
<b>Paragraph</b>	15
<b>Subparagraph</b>	2
<b>COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations</b>	EBA/GL/2018/08 - Guidelines on the STS criteria for ABCP securitisation
<b>Article/Paragraph</b>	54
<b>Date of submission</b>	05/10/2020
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<b>Disclose name of institution / entity</b>	Yes
<b>Name of institution / submitter</b>	Prime Collateralised Securities (PCS) EU
<b>Country of incorporation / residence</b>	France
<b>Type of submitter</b>	Industry association
<b>Subject matter</b>	Weighted Average Life calculation for Credit Card Receivables without fixed repayment scheme
<b>Question</b>	Can you provide guidance on how to determine the weighted average life and the residual maturity, of credit card exposures where instalments can vary every month from a minimal amount, mainly covering interest, to the full outstanding balance, fully depending on the preferences of the obligor?
<b>Background on the question</b>	The guidance on determining the remaining as well as the actual residual maturity cannot be applied to underlying exposures in credit card pools as described in the Question. For non-ABCP transactions this is not a problem since there is no maturity limitation. However, for ABCP transactions a maturity limitation is provided for in Article 24.15 of the Securitisation Regulation. We understand that this is intended to reduce asset/liability maturity mismatches, like funding 30 year mortgages with monthly rolling ABCP. There are several types of credit card arrangements, depending on

local regulation and bank and consumer preferences. On the one hand there are credit cards where the full balance has to be settled once a month. Given this very short maturity, these kind of credit card debts are not very suitable for securitisations. On the other hand, there are credit cards where the borrower can decide to pay in any month either a minimal amount (typically 1-5% of the outstanding balance or € 10-50) or any other amount up to the full outstanding balance. These kind of credit card debts look more like revolving consumer debts and are much better suitable for securitisation purposes. It is however not possible to exactly determine the maturity of these debts, since there is actually no scheduled repayment and therefore there is also no prepayment of a schedule, but there is a minimum payment rate. The minimum payment rate is however not a scheduled payment. The best approach for a scheduled payment concept might be to look at pool historical payment rates. As Article 24.15 is about a cap on the asset/liability maturity mismatch, a historical payment rate approach appears to be a good method of looking at the problem as it best captures the maturity of the asset which does not have a scheduled payment rate. Historic information, as provided by rating agencies, suggests that the payment rate on credit cards is on average 20-30% per month (source: Fitch, European Credit Card Index 3Q20, 3 months rolling average of 7 Fitch rated credit card securitisations, June 2019: 23.2%, March 2020: 29.1%, June 2020: 22.9%). So the maturity profile would fit very well in the 1 year (average) / 3 year (per loan) requirements of art 24.15. The Final Report on Guidelines on the STS criteria for ABCP securitisations does not provide explicit confirmation that historic payment rates of comparable pools can be used to determine the maturities of the pool seeking STS compliance. For credit card loans with variable payments no alternative exists since there is no actual or legal maturity as referred to in par, 54 of the Guidelines. So we would like to receive confirmation that as alternative the historic payment rates of comparable credit card transactions can be used,

**Final answer**

As stated in the EBA/GL/2018/08, paragraph 53, “for the purposes of Article 24(15), the weighted average life (WAL) of the pool of underlying exposures should be calculated by time-weighting only the repayments of principal amounts and should not take into account any prepayment assumptions or any payments relating to fees or interest to be paid by the obligors of the underlying exposures”.

In the case proposed, the WAL of the exposure cannot be determined using average historic repayment rates for comparable pools of exposures but has to be calculated having respect to the actual maturity date of the principal of the loan. However, if - as in the case proposed - a minimum payment rate was agreed this minimum payment rate may be used to calculate the WAL.

In the absence of a maturity date for the principal due from the borrower, the product cannot be considered to meet the requirements for simple, transparent and standardised ABCP securitisation.

<b>Link</b>	<a href="https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2020_5532">https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2020_5532</a>
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