EUROPEAN BANKING AUTHORITY

Single Rulebook Q&A

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Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Credit risk
Article	178
Paragraph	3
Subparagraph	d
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	EBA/GL/2016/07 - Guidelines on the application of the definition of default under Article 178 CRR
Article/Paragraph	49-55
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Disclose name of institution / entity	No
Type of submitter	Credit institution
Subject matter	Calculation of NPV loss in case of (internal) refinancing
Question	Which NPV loss should be taken in order to calculate the NPV loss if the 1% threshold is breached and the forborne loan contract should be placed in default?
Background on the question	A client contacts the institution for a loan restructuring of his retail mortgage loan as his repayment capacity has declined. This restructuring is granted via a (internal) refinancing of the mortgage loan with a prolongment of the duration and at current market interest rate (which is in line with the interest rates granted under normal circumstances and taking into account the prolonged duration of the loan). The new interest rate of the refinanced loan contract is hereby lower than the interest rate of the original loan contract, but this is due to the market evolution of the interest rate levels. In the current interest rate environment, a forbearance granted via a refinancing of the loan contract at current interest rates gives rise to a NPV loss. However the majority of this NPV loss is related to the new interest rate pricing of the loan. In the granting of this refinancing, normal acceptance and loan pricing procedures are followed. For the calculation of the NPV loss for the 1% threshold, two options are possible: A/ calculate the total NPV loss (= for the new market interest rate and the prolongment) B/

	calculate the NPV loss for the concession only (= in this case the prolongment of the duration).
Final answer	According to paragraph 51 of EBA/GL/2016/07 for the purposes of calculating the diminished financial obligation (DO) the parameter NPV1 is to be determined as “the net present value of the cash flows expected based on the new arrangement discounted using the customer’s original effective interest rate”. This rule does not differentiate by the reasons why the net present value of the expected cash flows under the new arrangement may be lower. Therefore, in the specific case of distressed restructuring as set out in paragraph 49 of EBA/GL/2016/07 the institution must determine whether “material forgiveness or postponement of principal, interest or fees” (paragraph 51 ibid) has occurred based on the expected cash flows under the new arrangement, irrespective of whether these cash flows relate to general market rates that are lower than the corresponding market rates underlying the contractual obligations before the changes in terms and conditions of the contract, or not.
Link	https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2021_6045