

Comment on the EBA- Discussion Paper on the Review of the NPL Transaction Data Templates

31. August 2021

The German Association of Debt Collection Companies (BDIU) comments on the EBA-Discussion Paper on the Review of the NPL Transaction Data Templates

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The **BDIU**, the German Association of Debt Collection Companies, represents the interests of more than 500 companies in the field of credit management, debt collection and debt purchase.

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BDIU members are not only performing credit and collection services, but also act as credit purchasers and even sellers on national, European and international markets. Depending on the specific business models BDIU members process, collect, and/or purchase performing loans, sub-performing loans and/or non-performing loans.

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Information on the (legal) characteristics of the loan, the counterparties or the collateral is crucial for the financial due diligence and valuation in NPL transactions. In addition, valid, accurate, and up-to-date information is key to the efficient collection/recovery of the loan by credit purchasers or their servicers.

Therefore BDIU welcomes the objective of the current review of the NPL transaction data templates. A common standard template providing information which helps sellers and purchasers to negotiate adequate prices for NPL-portfolios and which fosters the efficiency of the collection and recovery procedures should be a long-term goal of the European authorities. A first step should be the establishment of voluntary NPL Transaction Data Templates which really meet the needs and capabilities of all stakeholders. Broadly accepted standard loan data templates could reduce costs of due diligence by allowing investors to review assets in a cost-efficient manner through data standardisation.

The approach of EBA, to make the existing and voluntary NPL data templates more user-friendly, less complex, and proportionate is reasonable. Only templates which meet practitioners' needs will achieve the market acceptance desired by the European Commission.

Still BDIU would like to outline some outstanding issues and sensitize EBA for potential problems:

1. Market forces ensure the functioning of secondary markets for NPL, not templates.

As pointed out before, information on NPL-portfolios is crucial for adequate pricing just as for efficient processing/collection/recovery of NPL.

The proposal implies that a single set of standardised data templates would reduce information asymmetries and close the spread between ask and bid prices. This underlying assumption is at least questionable and lacks empirical evidence.

It is not primarily the scope or quality of information which determines the price a purchaser is willing to pay for an NPL-portfolio. After all it is the (total) default risk and the (buyer's) perspective to collect/recover the loan. Of course information enables sellers and purchasers to assess this risk and to answer central questions: How likely is it to collect the NPL? To which amount can the loan be collected? How long does it take to collect the loan? How much effort will be needed?

Even without standardised templates it is within the sellers' and the purchasers' interest to gather and provide adequate information. The more information in terms of quality and quantity sellers are willing to provide, the smaller the gap between bid and ask price and even nominal value of the NPL and achievable price vis a vis the purchaser will most likely be.

2. Standard NPL-templates should focus on the most important information.

Considering the forementioned, the reason why the existing EBA data templates were not widely used so far seems obvious. Many market participants lack the degree of internal organisation to provide the information asked for in the templates. Especially smaller banks do not have proper internal procedures and systems in place to provide all required data for these extensive templates. Apart from this, different legal frameworks in different European jurisdictions lead to different information needs and practices of NPL-market participants. This is why different, usually country specific templates are in use.

New standards bear the risk to be overburdened for some market participants and member states. In this case new costs and additional workload would be loaded on market participants. This would not contribute to the functioning of the markets. The implementation of a very high data standard may cause an opposite, reluctant effect on the activities of market players. It should be considered that data management of banks and even data availability in general shows strong differences between European markets. Therefore new data templates should seek for consensus on the lowest common denominator in Europe.

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3. Supervision of quality and reliability of data is necessary.

Data provided via standardised data templates must be reliable. So far, the revision includes no provisions regarding the quality requirements and reliability of the information delivered in the data fields. Within the upcoming European NPL-framework different actors (NPL-Platform-Providers, public supervisory authorities) could be responsible for supervising or validating the data provided in the templates. It remains unclear to what extent supervisory/validation procedures are supposed to be established and which actors would be responsible for this.

For BDIU members just as from a consumer protection perspective the reliability and quality of counterparty information like contact and status information is of particular importance.

Apart from supervision and validation the proposal also does not include thoughts on sanctions for missing or invalid data.

4. Scope on NPL only and the lack of differentiation seem insufficient.

Unfortunately the proposal covers NPL only. Performing loans, sub-performing loans, (secured or unsecured) non-performing loans, or pure real estate owned are not covered in the templates so far. All these types of loans play a role on credit purchase and credit service markets and the relevance of each data field in the templates can vary within the different loan classes. Furthermore there is also a lack of differentiation between original loans offered by creditors themselves and second placements by credit purchasers/investors.

5. Market participants need certainty concerning data protection.

GDPR and its principle of data minimization seem to be in conflict with the NPL Transaction Data Templates. Many data fields are not necessarily required to evaluate a portfolio or to perform the servicing. NPL purchasers just as their servicers would not even be allowed to store this information.

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