



ASF response to EBA Consultation Paper
on draft Guidelines on management of non-performing
and forborne exposures

As a unique representative body of all the French specialised credit institutions and financial institutions which represents 290 entities, ASF contributes to an appropriate recognition of the specialised financial activities like equipment and real estate leasing, factoring, consumer credit and auto loans and leases, mutual guarantee societies which – with an outstanding of more than €230 billion in 2017 – accounts for about 20% of total amount of credits to the real economy in France.

We would like to thank the European Banking Authority for giving us the opportunity to respond to this Consultation Paper on its draft Guidelines on management of non-performing and forborne exposures and to draw its attention to some facts and suggestions related to the specificities of our credit activities.

1. What are the respondents' views on the scope of application of the guidelines?

2. What are the respondents view of the proposed threshold of 5% NPL ratio?

Association française des Sociétés Financières (ASF) represent credit institutions specialised in their activity: consumer credit, factoring, leasing, real estate financing...), meaning it is their single activity. Their NPL management processes are dedicated to this single activity and is then in general very efficient.

For ASF institutions, a standardized level of 5% above which the level of NPL would be considered as high would be artificial and too low.

Consumer credit for instance usually involves small amount exposures, and exclusively on individuals. Exposures classified as NPL according to prudential regulation may represent more than 5% of total exposures. Indeed, for consumer credits, the NPL ratio is structurally higher.

A 5% ratio threshold would be meaningless for consumer credits. Moreover, this level may vary in time, and from one institution to another, depending on the arbitration between profitability and cost of risk. Globally, a threshold based on the total cost of risk would be more relevant than a ratio comparing NPL to total exposures.

The 5% threshold is too conservative also for leasing activities.

In real estate leasing for instance, as regard the new definition of default, the standardized 90 days threshold is expected to be often too short due to the processes of invoicing themselves (for instance sometimes based on a quarterly basis).

Besides, real estate leasing exposures are usually long-term exposures. They tend mechanically to remain longer in the balance sheet. Therefore, few NPEs may represent more than 5% of the total exposure, without this ratio being significant. For this activity, a 10% ratio to consider NPL as elevated would be more appropriate.

The EBA Guidelines consider NPEs without any distinction between different forms of financing. The collateral is always defined with respect to a "traditional" (i.e. not directly owned by the bank/financial institution) type of collateral, which enforcement requires specific legal and operational processes for realising the value of the asset, processes that are often long, uncertain and expensive and in most cases lead to realised values that are significantly lower than market values.

Leasing contracts on the contrary, because of the direct ownership of the asset as collateral, benefit from short time repossession and allow the sale of the asset under normal market conditions.

Considering the high reliability of the recovery process of collateral linked to leasing exposures – both movable and immovable, we suggest that leasing activities should be allowed "designed" NPE thresholds to properly determine whether the NPE ratio is significant or not.

As a consequence, ASF globally considers that the NPL ratio threshold should not be standardly set at a level of 5% but should be reviewed in order to take into account the type of credit concerned and the base of reference.

3. Do you see any significant obstacles to the implementation date and if so, what are they?

A too close implementation date, associated with a too low NPL ratio threshold, could have brutal impacts on equipment and real estate markets, since institutions would be indirectly encouraged to realise “urgently” collaterals. We would suggest a progressive implantation process.

4. Does section 4.3.2 capture all relevant options available for credit institutions to implement their NPE strategy?

5. Do you see any significant obstacles to the operationalisation of the NPE strategy as described in chapter 5?

Association française des Sociétés Financières (ASF) don't see any specific obstacle to the described operationalisation of the NPE strategy. Most of the processes and actions required are already run by ASF specialised credit institutions.

Against this background, we simply underline that the framework imposed by the guidelines would represent an undue supplementary formal constraint.

However, ASF considers that an annual review of the whole NPE strategy would be too burdensome. This review should rather be aligned on the medium-term plan of the institution.

6. Does the viability assessment of forbearance measures capture all relevant aspects?

7. What are the respondents view on the proposed requirements for recognition of non-performing and performing/non-performing forborne exposures?

Concerning forbearance, EBA guidelines make a distinction between short-term and long-term measures. EBA gives specific criteria to assess the viability of the forbearance measures. In particular, credit institutions should systematically collect documented financial information from the customer in order to justify the measure undertaken.

For consumer credit activity (low duration, small amounts, exclusively individuals) for instance, such requirements are disproportionate. They are likely to complicate and hinder forbearance processes. Although favourable for them and at their request, this excess in formalism could finally exclude some costumers from the forbearance processes.

Besides, the distinction between short-term and long-term measures seems unsuitable as the probation period which determines the duration of the forbearance measure is already regulated. Forbearance measures generally extend the duration of the credit.

8. What are respondents view on the requirements on timelines of impairments and write-offs of NPEs?

9. Do you have any significant objection against the proposed threshold for property-specific valuation (EUR 300,000)?

The proposed threshold for property specific evaluation is far too low for real estate leasing activities, that are only open to corporates in France.

Almost all the contracts originated are above this amount. And even considering amortization in time, a large part of single exposures in French real estate lessors balance sheet is above 300 000 €. Then the cost of implementing property specific evaluation above 300 000 € would be disproportionately costly.

We would suggest setting this threshold for property-specific valuation much higher than EUR 300,000, at least EUR 1,000,000.

10. Do the requirements for valuation of movable property collateral capture all relevant aspects?

Valuations requirements and criteria should make sure that leasing institutions (which have the property of the assets, i.e. the highest level of guarantee) are certain to be able to consider that leasing contracts are eligible “secured” exposures.

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Leasing contracts on the contrary, because of the direct ownership of the asset as collateral, benefit from short time repossession and allow the sale of the asset under normal market conditions.

Due to the special characteristics of leasing, considering the high reliability of the recovery process of collateral linked to leasing exposures, we consider that both movable and real estate leasing activities should be considered “secured”.

We also wish to underline that leasing activity is an “asset expert” activity. Institutions have developed a high level in expertise in the categories of asset they lease. Against this background, most institutions specialised in leasing activities use statistical valuation for movable assets that have proved to be highly reliable. Therefore, we consider that requirements for movable property valuation should avoid individual (“one to one”) asset valuation rationale.

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