

European Banking Authority

Brussels, 29 January 2015

Re: EBA Consultation Paper on credit obligation past due

Dear Sir/Madam,

Leaseurope and Eurofinas, the voices of leasing and consumer credit at European level, welcome the opportunity to respond to the European Banking Authority's (EBA) Consultation Paper on Draft Regulatory Technical Standards (RTS) on materiality threshold of credit obligation past due under Article 178 of EU Regulation 575/2013.

Eurofinas brings together associations throughout Europe that represent consumer credit providers. The scope of products covered by Eurofinas members includes all forms of consumer credit products such as personal loans, linked credit, credit cards and store cards. Consumer credit facilitates access to assets and services as diverse as cars, furniture, electronic appliances, education etc. By providing access to finance to individuals and households, consumer credit supports the social and economic well-being of millions of consumers across Europe. It also benefits manufacturers, motor dealers and retailers as a key tool for their sales. It is estimated that together Eurofinas members financed over **321.7 billion Euros worth of new loans** during 2013 with outstandings reaching 827.9 billion Euros at the end of the year.

Leaseurope brings together 44 member associations representing the leasing, long term and/or short term automotive rental industries in the 33 European countries in which they are present. The scope of products covered by Leaseurope members' ranges from hire purchase and finance leases to operating leases of all asset categories (automotive, equipment and real estate). It also includes the short term rental of cars, vans and trucks. It is estimated that Leaseurope represents approximately 92% of the European leasing market and in 2013, total new leasing volumes worth **251.9 billion Euros** were granted by the firms represented through Leaseurope's members.

You will find below a number of key concerns for the industry that Leaseurope and Eurofinas represent:

- We see the EBA proposal to introduce an absolute ceiling or threshold of 200 EUR for retail exposures and 500 EUR for all other exposures as extremely conservative. We do not think that this proposal sufficiently takes into account the diversity of credit obligations and, in particular the specific features of leasing and consumer finance.
- We disagree with the approach proposed in the draft RTS that default should be recognised as soon as one of the components of the threshold (absolute or relative limit) is breached. We would support the introduction of the alternative option i.e. the recognition of default after both thresholds are breached. We think the proposed draft RTS will artificially increase the number of defaults as it will not allow the proper treatment of IT failures or misunderstandings with clients.
- According to the definition of a credit obligation past due, all amounts past due more than 90 days, irrespective of which credit obligation of the obligor they are related to, should be summed up and assessed against the materiality threshold. We think the 90 days period (or 180 days if replaced by competent authorities) should start running once the threshold has been breached and not straight after any part of a credit obligation is past due.

Q.1 Do you agree with the approach proposed in the draft RTS (option 1) that default should be recognised as soon as one of the components of the threshold (absolute or relative limit) is breached? Or would you rather support the alternative option, i.e. recognition of default after both thresholds are breached (option 2)?

We disagree with the approach proposed in the draft RTS that default should be recognised as soon as one of the components of the threshold (absolute or relative limit) is breached (option 1). We would support the introduction of the alternative option i.e. the recognition of default after both thresholds are breached (option 2).

We take the view that option 1 is overly conservative and, as acknowledged by the EBA, will not allow the proper treatment of defaults that result from IT failures or misunderstandings with clients. We think this approach will artificially increase the number of defaults and decrease the overall quality and readability of data.

Option 1 is fundamentally ill-suited for credit and financial institutions involved in personal loans or point of sale finance (for example related to the financing of white goods, electronic appliances or furniture). According to Eurofinas Statistical Survey, the average loan at the point of sale was of 1014 EUR in 2013. Typical conditions of such loan facilities require a repayment over a 12 months period of time. In such case, late payment of one single instalment would breach the relative limit of 2% and qualify as default. We think such a treatment would be discriminatory for all smaller credit facilities.

We also draw your attention to the potential crucial impact option 1 could have on leasing portfolios. For example, the implementation of option 1 in Italy would lead to an increase of +46.9 % in past due positions together with an increase of their value of + 224.5%¹.

¹ Estimates provided by *Assilea* (IT) on the basis of available data collected from major Italian leasing institutions.

Q.2 Do you agree with the proposed maximum levels of the thresholds?

We see the EBA proposal to introduce an absolute ceiling or threshold of 200 EUR for retail exposures and 500 EUR for all other exposures as very restrictive.

We think the absolute and relative limits should never be lower than the amount on one instalment of the credit obligation referred to. We believe this is the only way to take into account the diversity of credit obligations and, in particular the specific features of consumer finance.

We understand that, unless the definition is applied at the level of an individual facility (in the case of retail exposures) all amounts past due more than 90 days, irrespective of which credit obligation of the obligor they are related to, should be summed up and assessed against the materiality threshold. We would welcome a confirmation that only amounts past due more than 90 days should be considered i.e. not the overdue amount when only some of which is past due more than 90 days.

As proposed in the consultation paper, we support technical option 3 according to which the 90 days period (or 180 days if replaced by competent authorities) should start running once the threshold has been breached and not straight after any part of a credit obligation is past due.

In addition to the absolute thresholds provided for retail and other exposure segments, we think consideration should be given to the introduction of a specific threshold for exposures to public sector entities as well as exposures secured by a mortgage or by another comparable security commonly used in EU/EEA Member States on immovable property or secured by a right related to immovable property. We think that the lower risk profile of exposures to public sector entities and the high collateral value of exposures backed by immovable property (including real estate leasing) justify the introduction of specific thresholds. Against this backdrop, we believe that real estate leasing and immovable properties exposures in general should be subject to a higher threshold of 1000 EUR.

As an overriding priority we believe that thresholds should in any case be considered as maximum caps, under which credit institutions are allowed to trigger defaults at the level they consider the most efficient according to their internal monitoring procedures and to their specific knowledge of counterparties.

Q.3 How much time is necessary to implement the threshold set by the competent authority according to this proposed draft RTS? What is the scope of work required to achieve compliance?

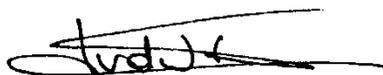
We think the proposed draft RTS will have a variable impact depending on firms and markets but, in general, will have important consequences on monitoring, credit risk measuring systems and IT. We think two to three years are needed to implement new thresholds. This period of time will be needed to adjust IT systems, rebuild internal models, get the green light from local supervisory authorities, etc. Obviously, more resources will be proportionately required from smaller obliged entities. The necessary time to achieve compliance should be based on the technical and resources abilities of the smaller firms and not of the largest.

*Q.4 Do you agree with the assessment of costs and benefits of these proposed draft RTS?
Q.5 What is the expected impact of these proposed draft RTS?*

We have no further technical observations but we would like to reiterate that the proposed draft RTS will give a misleading picture of defaulted clients and impact institutions' credit risk and capital absorption. We think that the consequences of option 1 may have been underestimated, in particular for smaller obliged entities and smaller financing facilities.

I remain at your disposal, should you be interested in discussing any specific issue. Alternatively feel free to contact my colleague Alexandre Giraud (a.giraud@eurofinas.org - tel: + 32 2 778 05 64).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'TvdW', with a long horizontal stroke extending to the right.

Tanguy van de Werve
Director General