EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Danièle NOUY

Chair of the Supervisory Board

Mr Michael McGrath TD
Dáil Éireann
Leinster House
Kildare Street
Dublin 2

Frankfurt am Main, 2 March 2018

Re: Your letter on banks' loan portfolios in Ireland

Honourable Member of Parliament, dear Deputy McGrath,

Thank you for your letter to the ECB President dated 16 February 2018, which he passed on to me as it relates to the ECB's supervisory tasks.

Although ten years have passed since the onset of the financial crisis, the stock of non-performing loans (NPLs) remains elevated. High levels of NPLs pose a risk to the soundness of banks, with adverse implications for lending and hence also economic growth. Addressing this vulnerability is a key priority of ECB Banking Supervision.[1]

For this reason, the ECB published its Guidance to banks on non-performing loans[2] in March 2017, setting out how it expects banks to manage their NPLs. The Guidance is based on the common definition of non-performing exposures provided by the European Banking Authority (EBA).[3] The objective of the Guidance is to establish a consistent, best-practice approach to tackling NPLs in individual banks across the whole euro area.

The Guidance states that each bank with elevated levels of non-performing exposures is expected to develop portfolio-level reduction targets with a view to reducing the level of non-performing exposures on its balance sheet in a timely manner.

Chapter 2 of the Guidance outlines best practices concerning how banks should formulate their NPL reduction strategies and lists the possible tools for implementing these strategies, including forbearance, active portfolio reductions, change of exposure type and legal options. The Guidance highlights that banks

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[1] https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.supervisory_priorities_2018.en.pdf

[2] https://www.bankingsupervision.europa.eu/ecb/pub/pdf/guidance_on_npl.en.pdf

[3] Final Report on final draft implementing technical standards amending Commission Implementing Regulation (EU) 680/2014 (EBA/ITS/2016/07)

should ensure that their NPL strategy includes “not just a single strategic option but rather combinations of strategies/options to best achieve their objectives over the short, medium and long term”. The optimum combination of such tools depends on the characteristics of each credit institution’s portfolio as well as the market and legal environment it operates in. It is important to note that, as described in the Guidance, the combination of tools is chosen by each individual bank’s management at its own discretion following a thorough assessment. The ECB has not expressed a preference for some NPL reduction tools rather than others.

The SSM Regulation[4] tasks the ECB with supervising credit institutions from a prudential perspective. This activity is without prejudice to the responsibilities and related powers of the competent authorities of the participating Member States to carry out supervisory tasks not conferred on the ECB by the SSM Regulation.[5] This means that supervisory tasks not conferred on the ECB – including consumer protection – remain with the national authorities.[6]

The ECB assesses compliance with the relevant microprudential requirements when sales of NPLs take place; the interaction between the buyers of non-performing or performing loans and the relevant borrowers, on the other hand, is a consumer protection issue that falls outside the ECB’s remit.

I hope these explanations provide clarity on the scope of the ECB’s work regarding NPLs. Please do not hesitate to contact me if you have any further questions.

Yours sincerely,

[signed]

Danièle Nouy

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[4] Council Regulation (EU) No 1024/2013 of October 2013

[5] Article 1 of the SSM Regulation

[6] Recital 28 of the SSM Regulation