Minimum loss coverage for non performing exposures

2018/0060(COD) - 25/04/2019 - Final act

PURPOSE: to supplement existing legislation in order to ensure sufficient coverage by banks of losses they may incur on future non-performing loans (NPLs).

LEGISLATIVE ACT: Regulation (EU) 2019/630 of the European Parliament and of the Council amending Regulation (EU) No 575/2013 as regards minimum loss coverage on non-performing exposures.

CONTENT: the financial crisis has led to the accumulation of non-performing exposures (NPE) in the banking sector. The establishment of a comprehensive strategy to deal with NPEs is an important goal for the Union, which aims to increase the resilience of the financial system.

This Regulation amends Regulation (EU) No 575/2013 on capital requirements (CRR) in order to prevent any excessive accumulation of non-performing loans (NPLs) in the future without sufficient coverage of losses on the banks' balance sheets. Its objective is to ensure that banks set aside sufficient own resources when new loans become non-performing.

A bank loan is generally considered non-performing when more than 90 days have passed without the borrower (a company or individual) paying the amounts due or interest that have been agreed upon, or when it becomes unlikely that the borrower will repay it.

On the basis of a common definition of non-performing exposures (NPEs), the new rules establish a ‘prudential backstop’ providing for institutions to cover up to common minimum levels the incurred and expected losses on newly originated loans once such loans become non-performing. In the event that a bank does not comply with the applicable minimum coverage requirement, deductions from its own funds shall apply.

Different coverage requirements shall apply depending on whether NPEs are classified as ‘secured’ or ‘unsecured’ and whether the security interest is movable or immovable.

For unsecured NPEs a calendar of three years shall apply. In order to allow institutions and Member States to improve the efficiency of restructuring or enforcement proceedings, as well as recognise that NPEs secured with immovable collateral and residential loans guaranteed by an eligible protection provider will have a remaining value for a longer period of time after the loan turned non-performing it is appropriate to provide for a calendar of nine years. For other secured NPEs a calendar of seven years should apply until full coverage has to be built up.

ENTRY INTO FORCE: 26.4.2019.