Brussels, 8 June 2018

Leaseurope response to the European Banking Authority (EBA) consultation on management of non-performing and forborne exposures.

Leaseurope, the voice of leasing at European level, welcomes the opportunity to comment on the EBA consultation on its draft guidelines on management of non-performing and forborne exposures.

RESPONSES TO THE EBA QUESTIONS:

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

We welcome the focus on proportionality by the EBA on the proposed Guidelines. However, we would like to stress that, although 5% being on average the value of non-performing loan (NPL) ratio measured in recent EBA risk dashboard data, there is a high degree of dispersion of the indicator among different type of credit institutions, as highlighted on page 86 of the proposed Guidelines.

We think that small and medium size institutions would be the companies most affected by the introduction of the threshold. Therefore, we call on the EBA to avoid posing a significant burden for these type of institutions, which would have an adverse effect on the capacity of lending to SMEs.

We believe that the leasing industry would be particularly impacted by the proposal, especially in countries where institutions are often medium or small size entities, whose business model and structure would be greatly affected by the introduction of highly standardised risk management practices and complex processes for managing non-performing exposures (NPEs). This highlights the uneven distribution of the effect of introducing the Guidelines on different entities and different financial industries.

We therefore suggest that the threshold could be set at a level that does not excessively affects smaller institutions, while at the same time efficiently addressing the task of tackling NPEs also for these type of entities.

We would then propose a specific treatment for non-performing lease exposures. As demonstrated by recent studies conducted by Leaseurope, Deloitte and the University of Cologne[1], losses within the leasing activity are low because the lessor is funding a physical asset crucial to the client's core business activities. As the asset is a key working tool for the lessee,

[1] See "Leaseurope response to the European Commission consultation on the finalisation of Basel III" pages 3-6.

many defaulted leases regrade back to healthy situation with zero loss. In addition, the lessor can then sell or re-lease the asset in order to decrease any losses on the default, resulting in low loss rates[2].

We strongly believe that these characteristics of the leasing contracts would justify the exclusion of lease exposures from the calculation of the general NPL ratio threshold.

Finally, we also think that the 5% ratio could be too conservative for commercial real estate leasing. This is because we expect that the 90-day threshold, included in the new definition of default, may be often too restrictive for this type of exposures. This is due to the internal processes of invoicing where in a number of cases invoicing is done on a quarterly basis. We therefore suggest the EBA to consider this issue when setting the threshold.

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

The proposed threshold for property-specific valuation is too low for corporate real estate leasing activities. A significant number of corporate real estate leasing contracts are above the proposed value. We are therefore concerned that the cost of implementing property-specific valuation for each exposure above EUR 300,000 may be significant.

Given also past experience, the limit of EUR 300,000 seems to be very conservative and results as being excessively penalising in the cost/benefit ratio since it would increase fixed NPL management costs without modifying recovery capacity. A threshold of around EUR 1M could constitutes a better balance.

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

We do not have specific comments regarding the guidelines in Chapter 9 on the valuation of movable property collateral.

We would however stress that the EBA Guidelines consider banking NPEs as unique, without any distinction among the different forms of financing. According to this approach, the collateral to bank exposures is always defined with respect to the "traditional" (i.e. not directly owned by the bank/financial institution) type of collateral, whose enforcement requires specific judicial processes (e.g. foreclosure of capital goods, release of premises in the case of real estate, etc.) and processes for realising the value of the asset subject to public procedures (e.g. judicial auctions). These processes for the realisation of collateral are long and expensive and in most cases lead to realised values that are significantly lower than market values, with a negative impact on the final loss.

On the contrary, leasing contracts, thanks to the direct ownership of the asset or collateral, benefits from short time repossession of the collateral, as well as less costly recovery procedures of the financed assets. Moreover, once the leasing company has repossessed the collateral, it

[2] Ibid.

can sell it under normal market conditions without the need for judicial procedures, thus succeeding in obtaining a normally higher price and reducing the loss associated with the NPEs recovery process.

Due to the special characteristics of leasing expressed above, we think that leasing transactions, including both movable and immovable assets, should be considered "secured". For the same reasons, we also think that, an *ad hoc*, higher threshold should be set for leasing exposures, so as to properly determine whether an institution falls among those with “high NPE” level.

This threshold should consider the higher reliability of the recovery process of collateral linked to leasing exposures.

In addition, we suggest that the requirements for valuation of movable collateral in the case of leasing collateral should differ from the one proposed for “traditional” collateral.

Finally, in order to keep the estimation cost down, we recommend to keep the technical valuations of such assets outside the collateral valuation rules. For example, the valuations of the leased asset could be conducted by employees instead of third parties, with the application of indexed re-valuations, such as the asset deterioration tables. We would finally like to emphasize that the leasing business is characterised by its high degree of technical specialisation regarding the management and repossession of movable and immovable collateral.

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About us

Leaseurope brings together 44 member associations representing the leasing, long term and/or short term automotive rental industries in the 31 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, machinery, ICT and real estate). It also includes the short term rental of cars, vans and trucks. It is estimated that Leaseurope represents approximately 94% of the European leasing market.

Asset finance and leasing markets have developed to respond to business investment and consumption needs as well as to accompany the development of local industrial production and distribution. The types of institutions represented by the Federation include specialised banks, bank-owned subsidiaries, the financing arms of manufacturers as well as other, independently-owned institutions.

In 2016, the leasing firms represented through **Leaseurope’s membership helped European businesses invest in assets worth more than EUR 334 billion**, reaching EUR 779 billion of outstandings at the end of the year[3]. Leasing is used by more European SMEs than any individual category of traditional bank lending taken altogether (around 40% of all European SMEs make us of leasing which is more than any other individual form of lending)[4] and is also extremely popular amongst larger corporates[5]. It is also useful to support the public sector (e.g. leasing to schools, hospitals, etc.).

Leaseurope is entered into the European Transparency Register of Interest Representatives with ID n° 430010622057-05

[3] Leaseurope 2016 Annual Statistical Enquiry

[4] Oxford Economics, *The Use of Leasing Amongst European SMEs,* 2015; Eurostat, *Access to Finance Statistics,* 2011; International Finance Corporation *Leasing in Development: Guidelines for Emerging Economies,* 2009; European Investment Fund *The importance of leasing for SME finance, 2012*; and UEAPME, *UEAPME Newsflash,* 2012

[5] European Central Bank, *Survey on the Access to Finance of Small and Medium-Sized Enterprises in the Euro Area* , April 2013