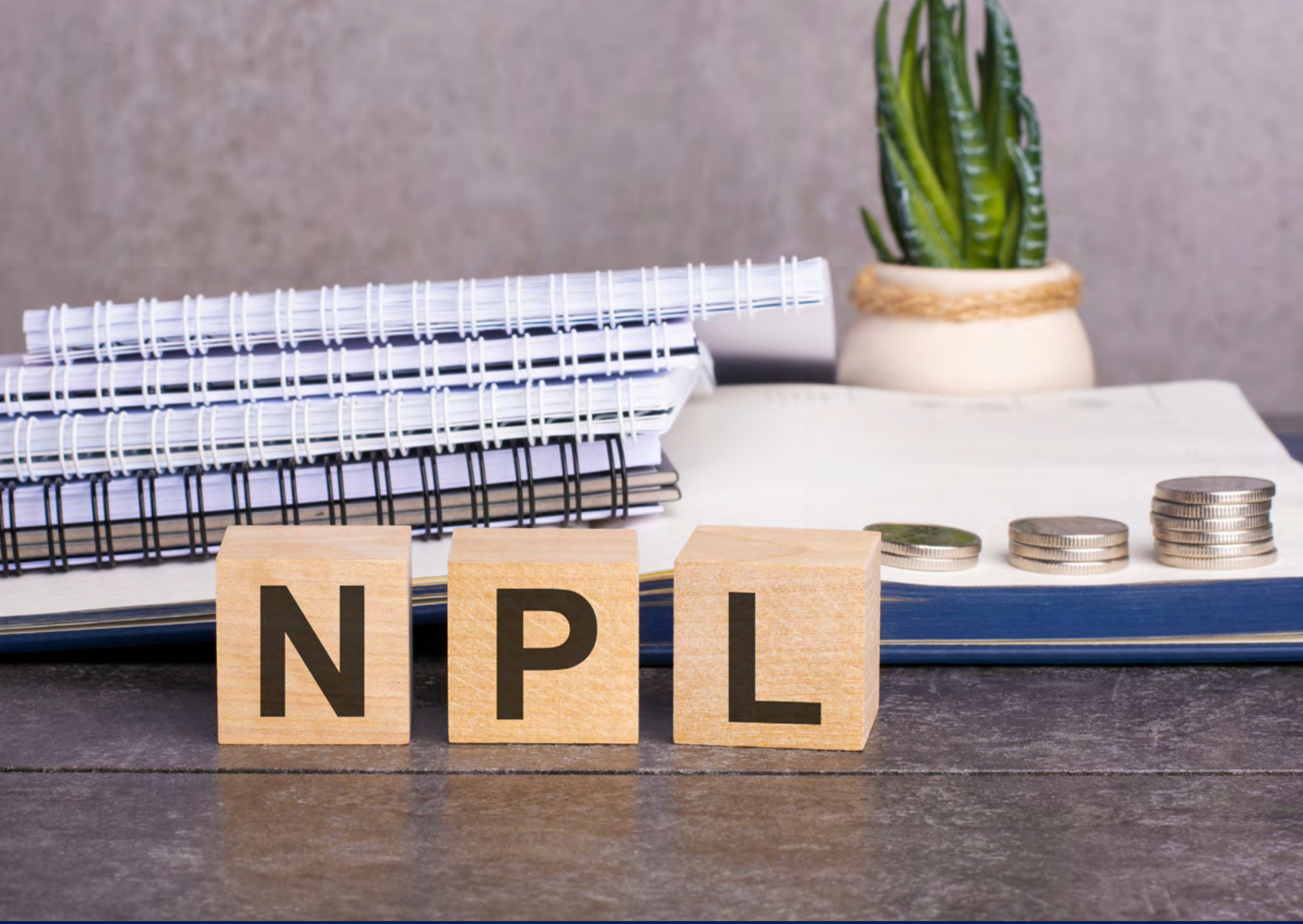

Monitoring the state of NPL SECONDARY MARKETS

February 2025

NPL Advisory Panel

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Monitoring the state of NPL secondary markets

February 2025

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Introduction

The aim of this paper is to provide a detailed overview of the state of the Non-Performing Loans (NPL) market in the European Union. This analysis is particularly timely, as more than a decade has passed since the global financial crisis, when several European banks were left with historically high levels of NPLs. At that time, the EU NPL secondary market was not sufficiently developed. Since then, several initiatives have been adopted to foster the development of the NPL secondary market in the EU, both at EU and national level. For instance, the "Action Plan to Tackle Non-Performing Loans in Europe", adopted by the European Council on 11 July 2017, and the subsequent "Action Plan to Tackle Non-Performing Loans in the aftermath of the COVID-19 pandemic", adopted by the European Commission on 16 December 2020, have contributed to the further development of the secondary market for NPLs, and to the disposal of the historically high levels of NPLs being held on banks' balance sheets.

Another important milestone was the adoption of the Directive on credit servicers and credit purchasers ("the NPL Directive") on 24 November 2021[1], which became applicable as of 29 December 2023. The aim of this directive is to create the appropriate environment for credit servicers and credit purchasers, to foster the development of NPL secondary markets and reduce the risk of future NPL accumulation within the banking sector, in a way that is consistent with the other initiatives taken so far.

In particular, when credit institutions face a large build-up of NPLs and lack the staff or expertise to properly service them, they should be able either to outsource the servicing of those loans to a specialised credit servicer or to transfer the NPL claim to a credit purchaser with the necessary experience to manage it.

The NPL Directive should foster the development of secondary markets for NPLs in the EU by removing impediments to, and laying down safeguards for, the transfer of NPLs by credit institutions to credit purchasers, while at the same time safeguarding borrowers' rights. By helping banks rapidly dispose of their NPLs, an efficient EU secondary market for NPLs can also reduce financial fragmentation and facilitate capital flows within the single market. From this perspective, a functioning NPL secondary market brings broader financial stability benefits and is one of the building blocks of a well-functioning European Savings and Investments Union.

It is therefore important to take stock of the current state of the EU NPL secondary market and assess how it has been functioning so far and whether there exist potential impediments to its further development.

To do so, this paper presents a detailed analysis based on an extensive coverage of several dimensions of NPL secondary markets, based on market data, market intelligence and literature review, and the responses to a survey launched by the NPL Advisory Panel in the first half of 2024[2]. The paper has been structured around three main building blocks. First, it tracks the evolution of NPLs in the EU, the potential outlook and the connected cost-of-living crisis. Second, it provides a detailed analysis of NPL secondary markets, starting from an overview of the main players (e.g., servicers, purchasers) in those markets and then moving to an in-depth analysis of the dynamics taking place in the markets, in terms of volumes,

[1] Directive (EU) 2021/2167 of the European Parliament and of the Council of 24 November 2021 on credit servicers and credit purchasers and amending Directives 2008/48/EC and 2014/17/EU

[2] https://finance.ec.europa.eu/document/download/f7f97c6d-d733-4de5-8c51-6630db78fa72_en?filename=240524-npl-advisory-panel-survey-results_en.pdf

prices and performance. Third, it focuses on consumer-related aspects of the market, like the evolution of costs, fees and forbearance measures. Finally, the paper concludes by summarising the main findings of the three building blocks.

Level of NPLs in the EU banking sector

The bulk of non-performing loans are generated by banks' lending activity. Looking at banks' balance sheets, the overall level/ratio of NPLs is low. However, a caveat needs to be made as the level is ticking up slightly, with broad dispersion across countries and segments. Indeed, while asset quality remains robust, the EU average non-performing loans ratio remained stable at 1.9% in 2024 (until Q3), up from 1.8% in 2023 Q4[3]. The higher volume of NPLs was therefore attributed to certain jurisdictions such as Austria, France, Germany, and Romania. These countries reported a total increase in their NPLs of more than EUR 16 billion since 2023. The highest NPL ratio was reported by Polish banks (4.0%), followed by Greek banks (3.3%). The biggest increase in the NPL ratio in 2023 was reported by Austrian banks (2.3% in September 2024 vs 1.8% in December 2023)[4]. NPLs collateralised by commercial real estate (CRE) and NPLs to SMEs increased the most and the NPL ratio of these exposures was 4.3% and 4.6%, respectively.

Unemployment rates are still near multi-year lows and accumulated liquidity during the pandemic help borrowers to maintain their repayment capacity. However, according to the European Banking Authority (EBA) Risk Dashboard for Q3 2024[5], signs of mild credit quality deterioration are becoming apparent. Furthermore, the NPL coverage ratio within banks has shown a broadly decreasing trend since the end of 2021[6]. The average NPL coverage ratio reached 41.6% at the end of Q3 2024. This is one of the lowest levels (albeit only marginally) from the start of EBA data collection (Q4 2014). Additionally, the number of banks with a coverage ratio below 40% remains high (46.3% in Q3 2024), slightly above the previous quarter (45.3% in Q2 2024)[7]. Market intelligence shows that the low level of NPLs is helped by, among other things, a proactive approach by the banking sector that recognises them early and disposes of them on an ongoing basis (mostly through sales of small portfolios).

However, banking loans are not the only form of financial commitments of both consumers and companies, and the level of NPLs in the banking sector does not take into account NPLs that were sold by the banks or generated outside the banking sector. In addition, low levels of NPLs do not necessarily imply that consumers are not experiencing financial difficulties. According to the European Commission study on over-indebtedness, 8.8% of European households were in arrears on their financial

[3] EBA Risk Dashboard 2024 Q3

[4] EBA Risk assessment report - July 2024 | European Banking Authority (europa.eu)

[5] https://www.eba.europa.eu/risk-and-data-analysis/risk-analysis/risk-monitoring/risk-dashboard
This is the latest issue available at the moment of finalising the paper

[6] The NPL coverage ratio measures the portion of NPLs covered by provisions. So, in all generality, the higher should be better. This is why EU law sets a minimum coverage ratio that banks are required to maintain. However, it remains to be noted that sometimes a low coverage ratio may not be necessarily bad. For instance, in case there is e.g. over collateralisation of a loan that recently became non-performing etc. the coverage ratio could be very low.

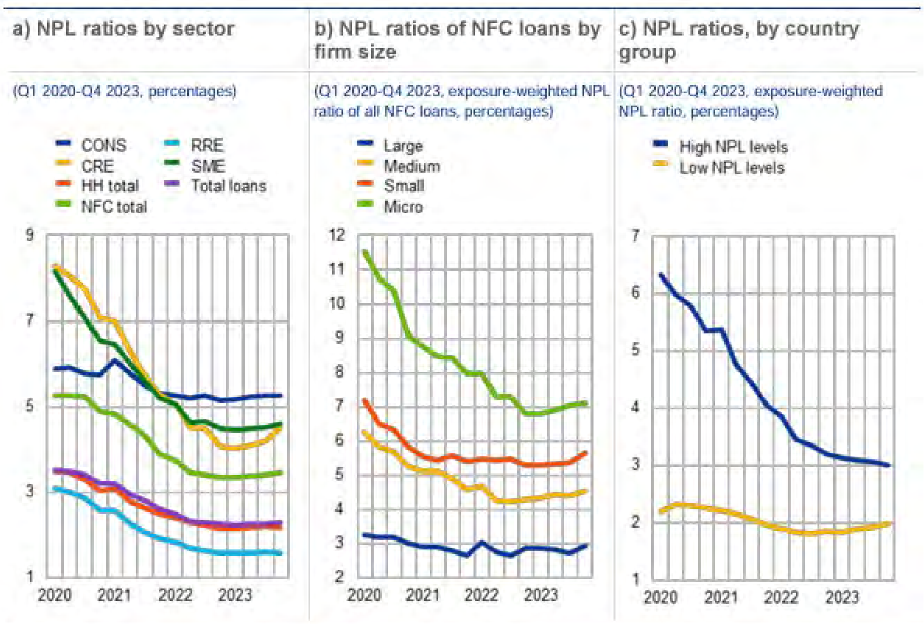
[7] The forbearance ratio does not give information on how many consumers did need forbearance measures but were not offered adequate measures. Consumer organisations report that forbearance measures come with high additional costs for consumers and as a consequence do not allow consumers to overcome financial difficulties.

commitments in 2020.[8] Defaulting on a loan comes with high costs for consumers[9] which people frequently try to avoid by, for instance, cutting down on other (essential) expenditures (e.g., food, energy, healthcare) or borrowing money from friends and family (see section on the cost-of-living crisis below).

NPL and coverage ratios

More specifically, as shown in the European Central Bank's Financial Stability Review (May 2024 issue), NPL ratios remain close to historical lows in aggregate, but loans to micro firms and the commercial real estate sector, and loans in countries with historically low NPL ratio levels, are starting to show mild signs of deterioration (Figure 1).

Figure 1. NPL ratios



Source: ECB (AnaCredit, supervisory data).
Notes: Panel a: based on the full sample of significant institutions. Excludes loans held for sale, cash and cash balances at central banks and other demand deposits. CONS stands for consumer loans; CRE stands for commercial real estate; RRE stands for residential real estate. Panel b: AnaCredit follows the EU Commission standard classification for micro, small, medium and large firms. Panel c: based on the full sample of significant institutions. Excludes loans held for sale, cash and cash balances at central banks and other demand deposits. For country groupings, see footnote 26. Slovakia has only branches or subsidiaries with a parent in the euro area, which are not considered here.

Looking at the Member State breakdown, the EBA Risk Dashboard shows that the highest NPLs in absolute terms for Q3 2024 were recorded in France (EUR 121.7 billion), followed by Spain (EUR 76.2 billion) and Germany (EUR 42.0 billion)[10]. By contrast, ten Member States each had NPLs lower or equal to 1 billion EUR.

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[8] European Commission, Study on European consumers' over-indebtedness and its implications, June 2023, https://commission.europa.eu/document/download/5002ff16-a502-4b98-91cd-4536b5cd70ec_en?filename=Study%20of%20consumer%20over-indebtedness_Main%20report_9.18.pdf

[9] https://www.quechoisir.org/action-ufc-que-choisir-credits-conso-et-covid-19-l-ufc-que-choisir-lance-l-alerte-sur-la-deflagration-des-impayes-n86487/?dl=66099

[10] For further details on the Member State breakdown, please consult Annex I.

On average, smaller banks tend to report materially higher NPL ratios, and a big share of them expects further deterioration in some portfolios (e.g., consumer credit). Historical data also indicates that smaller banks tend to have poorer asset quality than their bigger peers. While NPL ratios are higher, coverage ratios of smaller banks tend to be lower (35.6% vs 41.1%). There could be many reasons for poorer asset quality in smaller banks, including fewer possibilities to dispose of (or securitise) NPLs or maybe fewer comprehensive risk management resources or banks aiming to gain higher margin business.

As regards NPL ratios, the highest values for Q3 2024 are recorded in Poland (4.0%), Greece (3.3%), Romania (3.0%), and Spain (2.8%). However, the NPL ratio of Greece and Spain has been decreasing or stable in the last few quarters. Furthermore, these countries also present some of the highest average values for the NPL coverage ratio.

Member States that recorded an increase in NPL ratios over the last quarter, albeit from low levels, are Austria (2.3%), France (2.1%) and Luxembourg (1.9%). Meanwhile, the lowest levels for the NPL coverage ratio were recorded in Sweden (25.8%), the Netherlands (25.8%), Finland (26.4%), and Estonia (27.9%).

Considering the sectoral breakdown, the average NPL ratio for non-financial corporations (NFCs) (3.5%) is higher than for households (HHs) (2.2%). Within the HHs sector, the NPL ratio for mortgages is stable and even lower (1.5%) than the whole HHs sector. The average NPL ratio for small and medium enterprises (SMEs) is higher (4.6%) than for the NFCs sample and stable over the previous quarter.

The average NPL ratio for the CRE sector is also higher (4.3%) than for the NFCs sample and showing a slight decrease over the previous quarter. Similarly, the average coverage ratio for SMEs and CRE has been stable over the last quarter (but decreasing with respect to one year before).

Considering the provisions that the banking sector has to set aside for NPLs (which in turn may become outright losses), the analysis of counterparty's credit risk parameters for banks adopting the internal ratings-based approach[11] ('IRB' banks) can be useful to shed more light on the countries where most losses can be expected on a defaulted exposure (exemplified by the loss-given default, LGD). This can then have an impact on the subsequent sale price of NPLs by the originating bank. Higher volatility or dispersion in LGD parameters can instead be an indicator of potential instability in the expected recovery rates, which can in turn have an additional negative impact on the pricing of NPL portfolios in secondary markets. In particular, countries were the highest LGD have been recorded for 2024 Q3 are Croatia (LGD above 40% for both corporates and retail loans); Estonia (corporates); Greece (corporates); Hungary (retail); Latvia (corporates); Lithuania (corporates); Portugal (corporates); Romania (corporates), Slovenia and Spain (corporates). These countries also seem to have the highest level of dispersion.

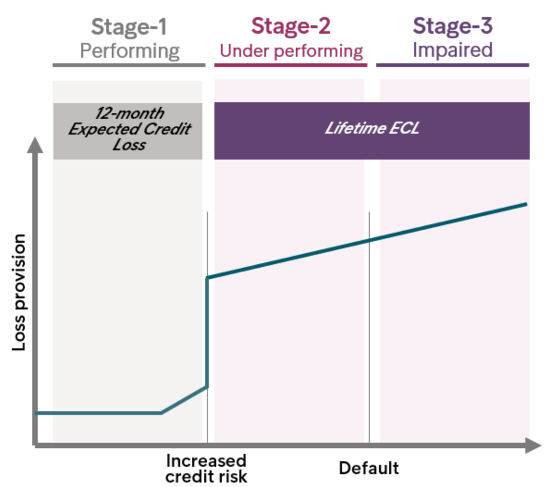
There appears to be substantial cross-country variability. While this variability is partially due to different economic dynamics across the continent, there may also be a structural component linked to the economic and legal framework of each country. Differences between national legal systems (e.g., civil law, civil procedural law) are inherent in the EU so that operators in the NPL ecosystem – like in other industries – need to adjust their business operations for each Member State. Therefore, this may make it harder for operators in the NPL ecosystem to operate cross-border, which in turn may limit the efficiency of this segment of the single market.

[11] With the supervisor's permission, banks can use internal models to determine their risk-weighted assets – and, therefore, how much capital they need in order to cover their risks. See, for instance: https://www.bankingsupervision.europa.eu/press/publications/newsletter/2023/html/ssm.nl230816_2.en.html

Stage 2 loans

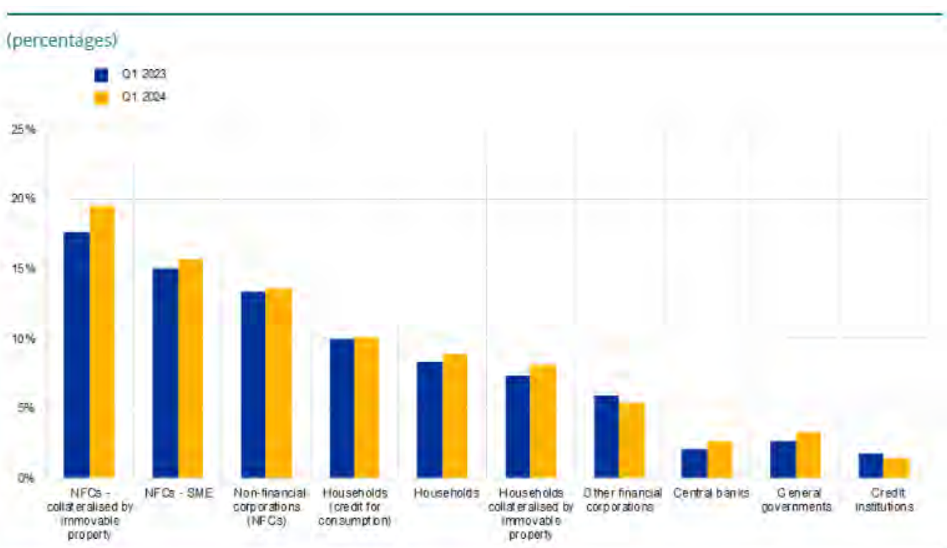
Looking forward, we can expect a possible further deterioration of asset quality. The recent slowdown in real estate markets could potentially manifest in higher impairments for banks. Stage 2 loans are also a good indicator of NPLs to come (Figure 2). Stage 2 loans and average cost of risk slightly decreased during the third quarter of 2024 (from 9.3% to 9.2% QoQ).

Figure 2. Loan loss provision according to loan classification



Source: Intrum

Figure 3. Stage 2 loans by sector (percentages)

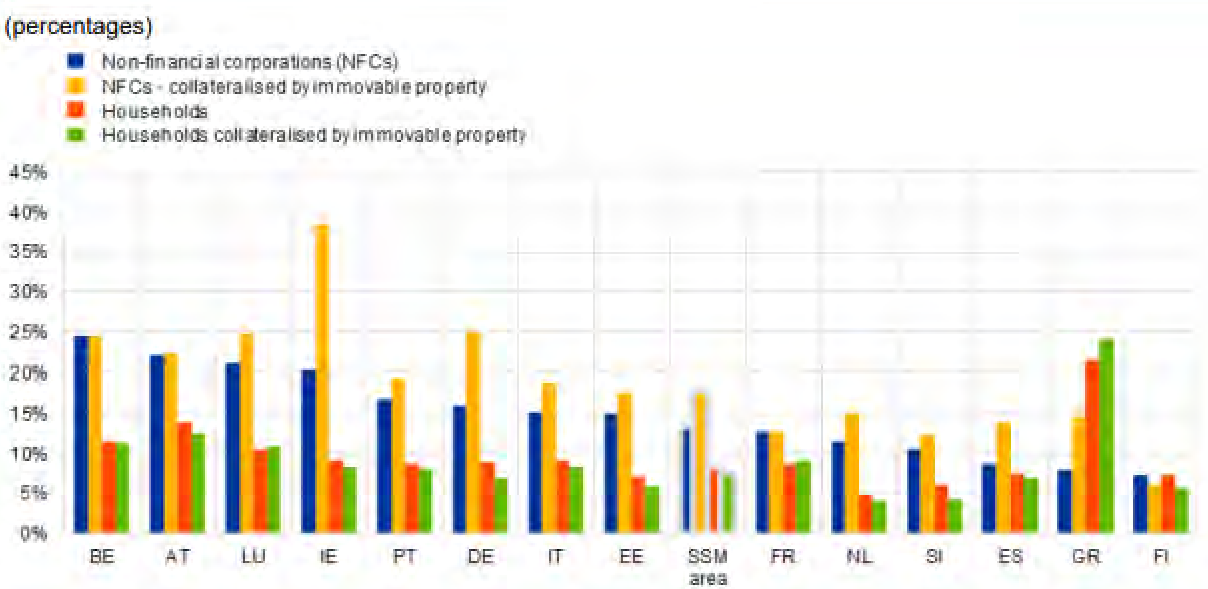


Source: ECB

Nonetheless, the share of loans classified at stage 2 under IFRS 9 remains elevated, above pre-pandemic levels. Across counterpart sectors, European Central Bank (ECB) supervisory statistics show that the highest levels were observed for loans to non-financial corporations collateralised by immovable property (19.44%) and to SMEs (15.70%), up from 17.65% and 14.97% respectively YoY.[12] (Figure 3).

Differences in the ratios are also noticeable across jurisdictions as displayed in Figure 4. In Q3 2023, Belgium reported the highest stage 2 ratio to NFCs (24.49%). Ireland reported the highest Stage 2 ratio to NFCs collateralised by immovable property (33.55%). Greece appears to have the highest Stage 2 ratio for households and households collateralised by immovable property (20.32% and 22.86%, respectively).

Figure 4. Stage 2 loans by counterparty and country (Q3 2023)



Source: ECB.
Note: Some countries participating in European banking supervision are not included in this chart, either for confidentiality reasons or because there are no significant institutions at the highest level of consolidation in that country.

According to the ECB Bank Lending Survey[13], euro area banks reported a net tightening impact of NPL ratios and other indicators of credit quality on their credit standards for loans to enterprises and consumer credit in H1 2024. The net tightening impact of perceived credit risks on banks' credit standards for loans to firms and consumer credit (both 9%) and the net tightening impact on terms and conditions (7% and 6% respectively) were above the averages registered since the question was first asked in the first half of 2018. Banks had previously anticipated a somewhat smaller impact on credit standards (5% for both) and on terms and conditions of loans to firms (5%), while the tightening impact on terms and

12 https://www.bankingsupervision.europa.eu/press/pr/date/2024/html/ssm.pr240626~5f9e44e0e7.en.html

13 https://www.ecb.europa.eu/stats/ecb_surveys/bank_lending_survey/html/ecb.blssurvey2024q2~f97cb321f1.en.html

conditions for consumer credit was in line with expectations (6%). For housing loans, credit quality had a broadly neutral impact both on credit standards and terms and conditions, as had been expected by banks.

Other market surveys[14] provide a similar picture. High rates and looming debt maturities are also set to keep the generation of real estate NPLs at relatively elevated levels, with almost three-quarters of respondents (72%) expecting an increase in portfolios of NPLs secured by real estate to come to market in 2024. This is only a little lower than for 2023 (79%).

Consistent with the data above, the NPL Advisory Panel's Survey on secondary markets for non-performing loans carried out in spring 2024[15] showed that most respondents expected both NPLs and Stage 2 loans to increase slightly in the medium term (2025 and beyond).

The decrease in official interest rates may bring some relief over 2025. However, this might be tempered by the less-favourable economic outlook.

Cost-of-living crisis

For the purpose of this paper, the cost-of-living crisis can be defined as the increase of energy prices since late 2021 followed by a broad-based inflation which led to a tightening of monetary policy and higher interest rates. Consumers were affected by higher costs for essential services such as energy and food and higher cost of credit. In response to this, a number of support measures have been enacted by several Member States since the beginning of the Covid-19 crisis. Further details on these measures can be found in Box 1 below.

According to data gathered by consumer organisations, consumers are less likely to be able to afford essential expenditures (energy, food, health, housing) than at the onset of the Covid-19 crisis[16]. This is not reflected in NPL ratios: other types of indicators are needed in this regard.

For instance, as reported by consumer organisations active in debt advice, the number of consumers with a negative budget where loan repayments combined with essential expenditures surpass the monthly income, has increased significantly. For instance, the Portuguese Association for Consumer Protection (DECO) reported a consistently high number of requests for information, advice and/or assistance in relation to budgeting, negotiation, or debt restructuring in 2022 and 2023[17]. DECO also carried out a high number of interventions to assist households in rebalancing their budget. As in the case of the requests for information or advice presented, the rising cost of living is increasingly mentioned as the main cause of financial distress (by 24% of consumers in 2022 and 32% of consumers in 2023).

[14] https://www.whitecase.com/insight-our-thinking/real-estate-2024-emerging-storm

[15] https://finance.ec.europa.eu/document/download/f7f97c6d-d733-4de5-8c51-6630db78fa72_en?filename=240524-npl-advisory-panel-survey-results_en.pdf

[16] Euroconsumers, Consumer Affordability Barometer: https://www.euroconsumers.org/wp-content/uploads/2024/06/Barometer-report-1.pdf

[17] The percentage of consumers requiring advice or guidance regarding loans thus rose from 52% in year 2022 to 64% in the first quarter of 2023. Data by DECO.

Box 1. Covid Loans and other support measures

The EBA monitored the support measures introduced in response to the Covid-19 crisis, then issued a closure report of these measures at the end of 2022[18], which provides an interesting summary of the measures and of the performance of the loans under these measures. When the pandemic broke out, an exceptionally broad set of support measures were swiftly put in place to alleviate the effects of the crisis. This included measures aimed at the EU banking sector to ensure the flow of lending to the real economy amid the extraordinary circumstances triggered by the pandemic and the associated short-term liquidity challenges. Among the different types of support measures that were activated to alleviate the effects of the Covid-19 crisis, moratoria and public support schemes were particularly important.

The regulatory flexibility provided for the treatment of exposures with Covid-19-related forbearance measures was used extensively by banks across Europe. Within this framework, lenders provided short periods of payment holidays (or moratoria on loan repayments), which were instrumental in protecting borrowers from liquidity shortages or other short-term adverse effects of the pandemic. Shortly after their broad rollout, there was a sharp increase in the take-up of EBA eligible moratoria to more than EUR 800 billion, which represented approximately 6.5% of the total loans towards households and NFCs. However, a quick run-off followed, confirming the scope and use of the measure was of a temporary nature to address short-term liquidity problems caused by the pandemic. By the end of 2021, active moratoria had nearly completely run out.

As moratoria were presumably primarily used by those borrowers most hit by the pandemic, loans that benefited from moratoria have performed worse than loans on average. For loans under active moratoria, banks quickly recognised the deterioration in their asset quality classifying 16.7% of them in Stage 2 already in Q2 2020. This compares with a Stage 2 ratio for total loans of 8.2% at that time. The Stage 2 ratio has constantly grown thereafter to more than 30% (peak of 33.6% in Q3 2021 and 30.3% in Q4 2021 when relevant data was fully available). Loans with expired moratoria still have a substantially higher Stage 2 allocation compared to all loans (23.6% vs 9.5% in Q2 2022). NPL ratios for loans under active and expired moratoria reached levels well above the overall average NPL ratio (which was 1.8% in Q2 2022). The ratio stood at 3.3% for loans under active moratoria in Q4 2021 (after a peak of 6% in the previous quarter) and 6.2% for loans under expired moratoria in Q2 2022.

Although asset quality had broadly deteriorated across all segments for loans that benefited from moratoria, banks recognised that commercial real estate (CRE) exposures with expired moratoria bore an elevated risk. Banks classified more than 30% of their CRE loans in Stage 2. This may also be due to the structural changes seen for this segment. However, the highest NPL ratio among loans that had benefited from moratoria was reported for HHs loans (excluding mortgages). In Q2 2022, banks reported more than EUR 55 billion of household loans that were not collateralised by residential immovable property, of which 12% were NPLs.

These trends clearly show that loans making use of loan repayment moratoria have been of lower asset quality. Although country dispersion on the use of moratoria was wide, as some economies rely more on Covid-19 hit industries, there was little dispersion across countries on the deterioration of asset quality of these loans.

[18] https://www.eba.europa.eu/publications-and-media/press-releases/eba-publishes-its-closure-report-covid-19-measures-and

The share of loans subject to Public Guarantee Schemes (PGSs) has increased since the outbreak of the pandemic. Starting from EUR 184 billion in Q2 2020, they reached their peak of EUR 378 billion in Q3 2021 and have since then been on a slight decline (EUR 365.1 billion in Q2 2022). Given the long maturities of some of these guarantees, a substantial part of these exposures will presumably be on banks' balance sheets for several years to come. Similar to loans under moratoria, banks reported an increasingly deteriorating asset quality for loans subject to PGSs. This might be explained by the fact that they were presumably prominently used by those sectors that had suffered most during the pandemic, such as hospitality. The Stage 2 ratio rose from 3.1% in Q2 2020 to 23.7% in Q2 2022, similar levels to the Stage 2 ratio of loans under expired moratoria. The share of Stage 2 loans has stabilised in the last quarter. In contrast, the NPL ratio continues its rising trend, albeit at a slower pace, from 0.6% in Q2 2020 to 3.7% in Q2 2022. These figures indicate that PGSs' loans tend to be of lower asset quality than banks' broad average exposures. Although loans subject to PGSs were available across the EU, they were mostly provided by banks in a few countries like France, Italy and Spain. Banks in these three countries provided more than 95% of the total loans subject to PGSs.

The pandemic did not put an end to loan support measures. When Russia's war against Ukraine started in February 2022, triggering an energy crisis, the European Commission responded by adopting the State Aid Temporary Crisis Framework[19], which included liquidity support in the form of state guarantees and subsidised loans to help consumers and businesses facing difficulties as a result of the high energy prices. The Framework has since been extended and adjusted several times, to compensate for high energy prices but also to support companies in the agricultural sector. The State Aid Temporary Crisis Framework was complemented by REPowerEU, the Commission's plan to phase out Russian fossil fuel imports, diversify energy supplies and produce more clean energy, which was launched in May 2022. At the heart of REPowerEU's funding is the Recovery and Resilience Facility (RRF). The EIB is managing RRF (Recovery and Resilience Facility) loans for Greece, Italy, Romania and Spain.

According to the February 2024 edition of the European Fiscal Monitor published by EUIFI[20], in 2023 many governments (13 out of 27) continued to provide the support measures implemented in 2022 to mitigate the impact of high inflation, especially high energy costs. Eleven countries (AT, CY, ES, FR, EL, HU, IT, LV, MT, PT, RO) reported the estimated size of the measures adopted since May 2023. On average, this stands at 0.1% of GDP.

The NPL Advisory Panel's Spring 2024 survey looked at the potential of Covid loans[21] to experience higher default rates than other loans, leading to an increase in NPLs. Only around a third of respondents predicted higher default rates for Covid loans, while 44% of respondents did not. Moreover, respondents were relatively confident in banks' ability to deal with the work-out of Covid loans: 57% thought that banks were sufficiently equipped to handle this task, 21% thought that banks were slightly underequipped, and only 5.5% thought that banks were substantially underequipped. Additionally, 58% of respondents saw no transfer restrictions due to Covid loans.

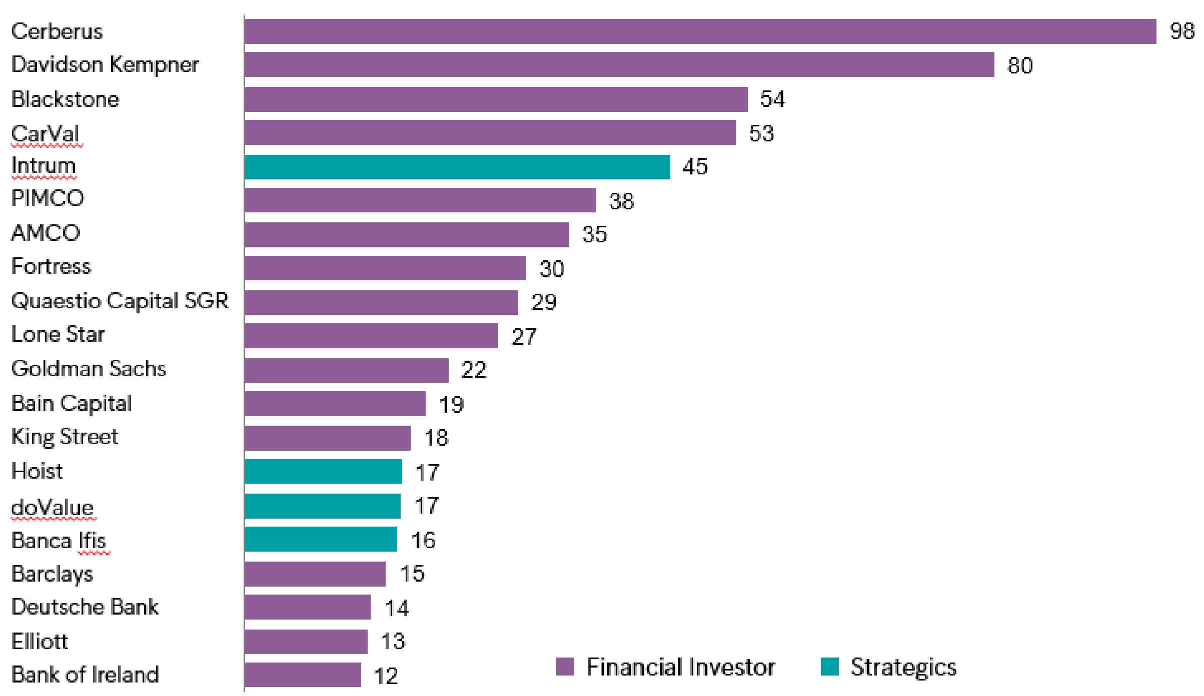
[19] https://competition-policy.ec.europa.eu/state-aid/temporary-crisis-and-transition-framework_en
[20] https://www.euifis.eu/publications
[21] In the context of the survey, Covid loans were all those loans that enjoyed public guarantees or were issued under public support schemes in response to the Covid-19 crisis.

NPL Secondary Markets

NPL purchasers and credit servicers

Concerning investors and purchasers of NPL portfolios, a large share of NPL investments is carried out by financial investors (as shown in Figure 5). This is consistent with the NPL Advisory Panel's Spring 2024 survey, where 68% of respondents identified international distressed debt investors as the top NPL buyers in the EU, with a significant presence in most Member States. The majority of these international distressed debt investors are headquartered in the US (e.g., Cerberus, Davidson Kempner, Blackstone, AB CarVal, PIMCO, Fortress, Lone Star, Goldman Sachs, Bain Capital, King Street, and Elliot, from those listed in Figure 5). These are followed by domestic distressed debt investors (mentioned by 27% of respondents), and quite far behind, by public asset management companies/bad banks (cited by only 4% of respondents). However, the predominance of US distressed debt investors seems to be decreasing, as many private equity investors that were previously prominent buyers when banks deleveraged are currently seeking to exit the market[22].

Figure 5 Top NPL buyers since 2015 (EUR billion)



Source: Intrum

Two issues driving the exits (or reduced presence) of several mainly financial investors are: (i) the reduced supply of new NPLs; and (ii) the changed interest rates landscape, as the increase of interest rates has led to an increase in the cost of capital or to a reassessment of the main business priorities.

[22] White & Case - European NPLs: New buyers emerge as disposals shrink

On the other hand, the credit servicers' sector has been growing in importance during the previous decade and even more recently, strengthening its role in the NPL secondary market. To shed further light on the trends taking place in the credit servicers' sector, this sub-section presents an analysis of the sector based on the developments in several widely used balance sheet indicators for a large sample of credit servicers operating in the EU.

The analysis has been carried out collecting balance sheet data from the ORBIS BvD database, for the 2014-2023 period, covering about 220 credit servicers active in the EU[23]. This analysis shows that the sector has developed and grown during this timeframe, despite major challenges like the Covid-19 crisis, the subsequent sharp increase in inflation and in official interest rates, and the gradual decrease of NPLs across the EU, which has likely sharpened competition across the market. An important caveat when studying the analysis is the systematic and significant variability across the sector. It means that caution is needed, particularly as regards absolute numbers, especially given the insufficient data coverage for some companies or some balance sheet indicators. Furthermore, while some players are active in several Member States, carrying out a cross-country breakdown of this activity is often not possible due to the lack of detailed information at the subsidiary level (if subsidiaries are used at all). Nonetheless, the trends provide interesting insights about the development of the sector over the last decade.

First of all, the credit servicers' sector has grown considerably over the last decade. For instance, the total assets on the balance sheet of the sample of servicers under consideration totalled about EUR 82 billion at the end of 2023, almost double the size of the sample a decade ago (EUR 43 billion of total assets at the end of 2014). The growth over the last decade is a testament to the increasing importance of the sector as an interlocutor for banks or other sell-side market players to dispose of NPLs, from one side, and for financial investors in the NPL market, from another side[24]. Figures 6 (a and b) show that the average dimension of these companies has gradually and steadily grown over the years, to stabilise in 2023. A similar picture can be gathered from the average number of employees that – albeit in a more volatile manner – has also grown during the last decade.

However, this average growth masks a significant variability across countries and players, both in terms of trends and levels. First, we can see that the sector shows a high level of concentration, as the top 20 servicers in the 220-large sample (about 10% of the sample) account for 90% of the sample in terms of total assets at the end of 2023. The top 20 players are mostly internationally active players (e.g., Intrum, Hoist, PRA Group, Kruk, etc.). Furthermore, the concentration of the sector has grown considerably through the decade under review. Indeed, the top 20 servicers' share of total assets has grown from 80% on average in 2014-2016 to about 90% in 2022-2023. This is a testament to the higher asset growth experienced by the top 20 players with respect to the rest of the sector during the last decade

[23] This sample was selected taking into account: (i) credit servicers active in different Member States, as listed – for instance – in the NPL Monitor of the Vienna Initiative; (ii) credit servicers automatically listed as such according to ORBIS categorisation criteria; (iii) credit servicers listed in NPL league and deals tables over the last decade; and, to a lesser extent, (iv) credit servicers listed as members of national industry associations. While this sample can be considered as broadly representative of the sector, it is by definition not complete. Furthermore, the data coverage was not complete for all the sample. This means that, for some indicators, the actual underlying sample size was smaller than the original selection. Furthermore, the sample encompasses entities at both the consolidated and the sub-consolidated level, depending on the type of data that were available

[24] However, this analysis does not allow to firmly identify the overall size of the sector in the EU. While the sample that has been examined is large and can be considered representative, it is by no means complete. Therefore, the overall size of the EU credit servicers' sector can be slightly larger than the EUR 82 billion, identified above

(104% vs 92% growth of total assets between 2014 and 2023)[25]. Similarly, the total number of employees in the sample grew from about 43,000 in 2014 to 61,000 at the end of 2023. Again, the share of employees employed by the top 20 servicers grew from 57% in 2014-2016 to 74% in 2022-2023. However, the average number of employees in the top 20 servicers slightly decreased from 2021 to 2022, to stabilise in 2023.

Furthermore, some countries, home to very large players (e.g., Sweden, Belgium, Italy, France), sometimes active in more than one country, have higher average total assets values throughout the time period and therefore present a much higher level of market concentration. However, some of them (e.g., Italy and Sweden) have seen their average total assets slightly decrease since 2020-2021. Other countries (e.g., France, the Netherlands, Poland), meanwhile, have seen a sustained growth of the average size of their players in more recent years. Country-specific figures about the average number of employees are broadly consistent.

Regarding profitability, despite the overall growth of the sector, there seems to be a lack of a clear trend. For instance, analysing the average return on assets (RoA, Figure 6c)[26], it seems that profitability decreased significantly from a peak in 2014 to lower levels between 2017 and 2020. The subsequent increase in 2022 has been followed by a correction in 2023, with the number of companies recording losses steeply increasing. The average return on equity (RoE), albeit more volatile and potentially less reliable as a sectoral indicator, highlights similar trends. Country-level data show that the decrease in profitability in 2023 was quite widespread. Only in 7 out of 27 EU countries (mostly in Central and Eastern Europe (CEE)), was an increase in average RoA recorded. Furthermore, profitability seems to be consistently lower for the larger players. The aforementioned indicators of profitability (i.e., RoA and RoE) have been lower than the full-sample average for the top 20 players. The losses recorded by three large operators in particular weighed on their average performance.

Another measure of operational profitability is the net asset turnover ratio (Figure 6e), which measures the value of a company's revenues relative to the value of its net assets[27]. As shown in Chart 6e, the ratio has been gradually decreasing from a peak of about 5 in 2016 to slightly above 2 in the years 2021-2023. While this value is lower than previous years, the decrease in operational profitability seems to have stopped, as the ratio has now stabilised. The country-level data show that in some countries, notably Belgium, France and Greece, the net asset turnover ratio stands at substantially higher levels than the average (hovering above 3). In terms of size variability, the top-20 largest servicers instead exhibited a lower net asset turnover ratio than the rest of the sample, however it remained remarkably stable throughout the period under review.

Moving to indicators of financial risk, a common measure is the gearing ratio, or debt over equity expressed as a percentage, that reflects the amount of existing equity that would be required to pay off outstanding debts[28]. As can be seen from Figure 6d, the gearing ratio for the credit servicers' sector moved within the 80%-120% range during the last decade. While these levels may not be considered excessively high for financial companies (e.g., it is one order of magnitude smaller than for the banking

[25] This level is to be considered provisional, as some of the 2023 data reported in ORBIS are still provisional and may be slightly reviewed in the coming months.

[26] Average RoA is calculated on the basis of operating profits to control for extraordinary and one-off items in the income statement.

[27] Here net assets are proxied by the sum of shareholders fund and non-current liabilities.

[28] Here the gearing ratio is calculated as the ratio between total debt and total equity, and expressed in percentage points.

sector), they are nonetheless sustained if compared with the broader spectrum of companies, where a gearing ratio above 50 is already considered a signal of heightened financial risk. In terms of trends, the gearing ratio has gradually declined from its 115%-peak recorded in 2015. It has nonetheless recorded a significant rise in 2023, when it increased by 20 percentage points with respect to end 2022 and reached 105%.

Furthermore, it is important to highlight the significant variability of average gearing ratios across servicers. While some companies, especially small ones, appear to operate with very low levels of leverage, others, especially larger ones which can probably benefit from easier access to financial markets and external funding, sometimes show average levels of the gearing ratio well above 100%. For instance, the same indicator for the top 20 servicers, in terms of size, shows a very different dynamic, increasing significantly from 2017 to reach a maximum of about 190 in 2023. This increase highlights the higher financial risk taken on average by the largest players, and the challenges that they are facing in the current environment. This is reflected also in country-level average data. Countries that tend to host the larger players – with higher average total assets, as portrayed above – also tend to show higher average levels of the gearing ratio, with the notable exception of Italy, where the average gearing ratio appears to be lower (moving in the 50-80 range in the years 2020-2023). Countries with comparatively smaller players, but higher levels of the gearing ratio, are Luxembourg and Latvia.

Figure 6

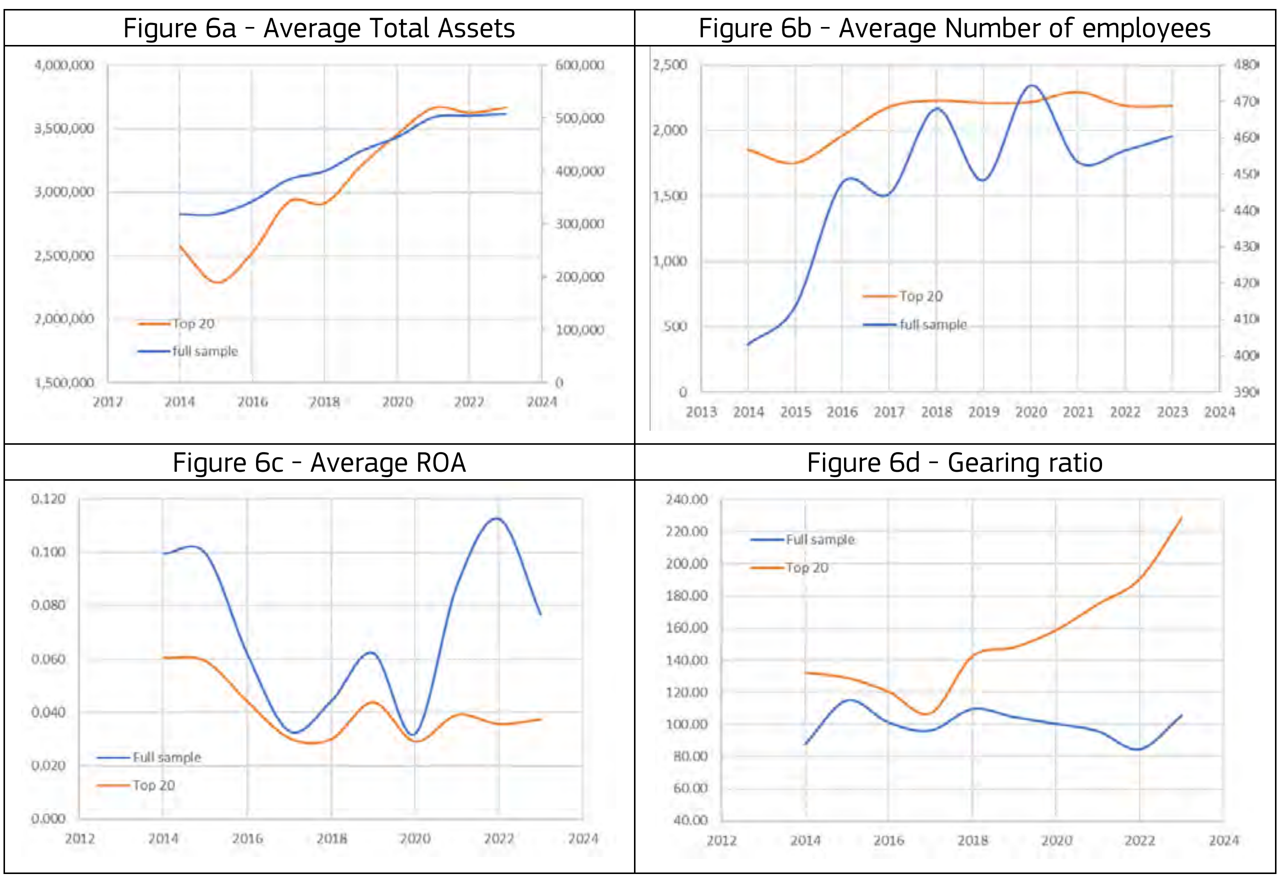


Figure 6e - Net Assets Turnover Ratio

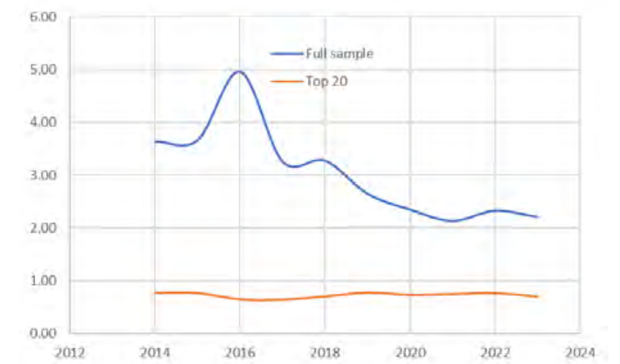


Figure 6f - Current ratio

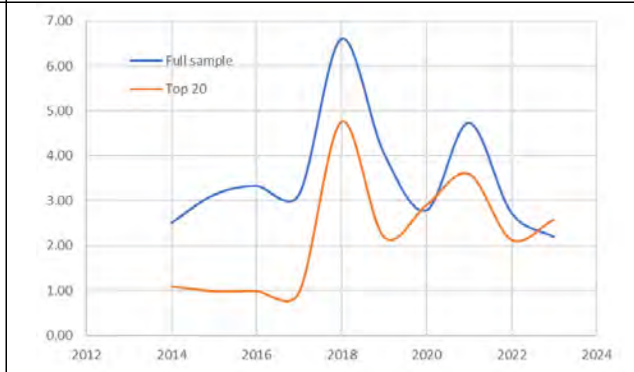


Figure 6g - Share of current assets

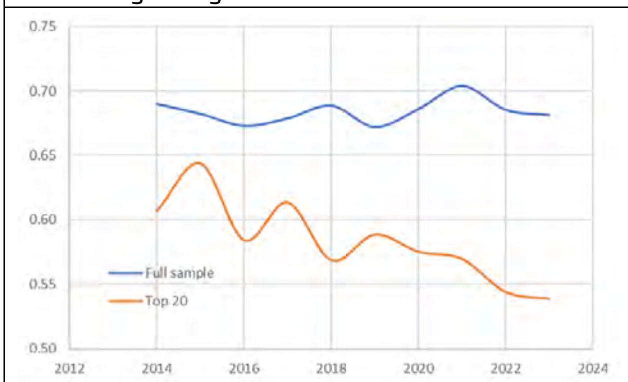
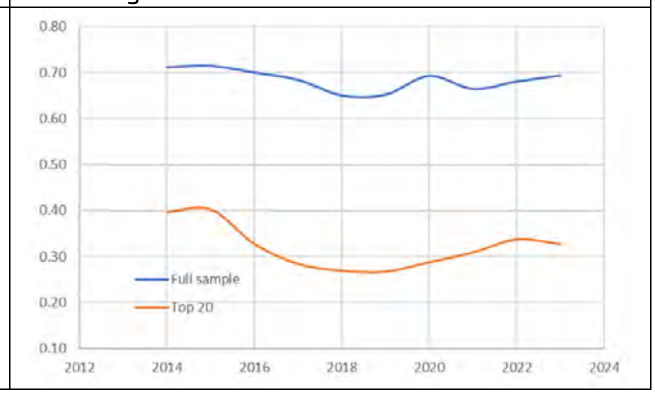


Figure 6h - Share of current liabilities



The analysis of the structure of the balance sheet shows that servicers – despite their peculiar field – have a quite conventional structure of assets and liabilities. Despite expectations, the share of current assets (that is assets that can be converted to cash within one year) is quite high for EU credit servicers, as shown in Figure 6g. The EU average share of current assets to total assets has been stable over the last decade, hovering just below 0.70 for almost all years. In the last two years, it has slightly decreased (from 0.70 in 2021 to 0.68 in 2023), showing a slight decrease in the liquidity of assets, but still remaining at fairly elevated levels. The same indicator for the top 20 servicers has been consistently lower than the rest of the sample (albeit still above 0.50) and gradually decreasing over the decade, potentially indicating a more efficient cash management, although at the potential cost of bearing slightly more liquidity risk.

The share of current liabilities (Figure 6h) shows a similar picture, with the share of current liabilities to total liabilities being well above 0.50 for all the years under review for the full sample, while being in the 0.30-0.40 range for the top 20 servicers. Interestingly, the share of current liabilities gradually decreased from the start of the time-period to 2018, suggesting a gradual shift of the sector towards more stable sources of funding, but it has started increasing since then. Potentially, this may also be linked with the increase in interest rates, which has made longer-term sources of funding more expensive. A common feature is for financial companies to resort to short-term funding when interest rates increase (thus enjoying relatively lower interest costs).

Analysing current assets and liabilities in combination is a common tool for assessing a company's ability to pay short-term obligations or those due within one year. As shown in Figure 6f, the ratio has remained comfortably above 2 for the entire past decade, suggesting a prudent business model across the sector that does not yield significant liquidity and reimbursement risks. Nonetheless, and consistent with the evolution of the indicators highlighted above, the current ratio has gradually decreased since its maximum level in 2018 to the minimum recorded during the period under review, of slightly above 2. In this respect, average numbers for larger players are roughly the same as those for the whole sample. This may suggest that credit servicers, both in their roles as servicers and as credit purchasers, have in recent years been experiencing a slightly more challenging and competitive economic environment that is making it difficult to maintain the high ratios of previous years. The indicator for the top 20 servicers followed a similar trend throughout the last decade, albeit at slightly lower levels than the full sample. Interestingly, it also shows a moderate increase from 2022 to 2023.

In a nutshell, these indicators highlight the growth of the sector over the last decade and its overall resilience and stability. Despite recent macroeconomic and geo-financial challenges that could have hindered the overall profitability of the business environment, credit servicers have continued to grow and have also broadly remained solvent and with a sound business model. However, more recently, the overall picture has become less clear, as the challenges pile up on the sector. Profitability has decreased, potentially as a result of higher interest rates and the low level of NPLs that increased competition in the sector. At the same time, financial risks seem on the increase, especially for larger players. Servicers that also act as credit purchasers have faced the challenge of higher refinancing costs and fewer possible deals caused by lower overall numbers of NPLs in the market. These challenges could possibly favour a further drive for efficiency and consolidation in the market[29].

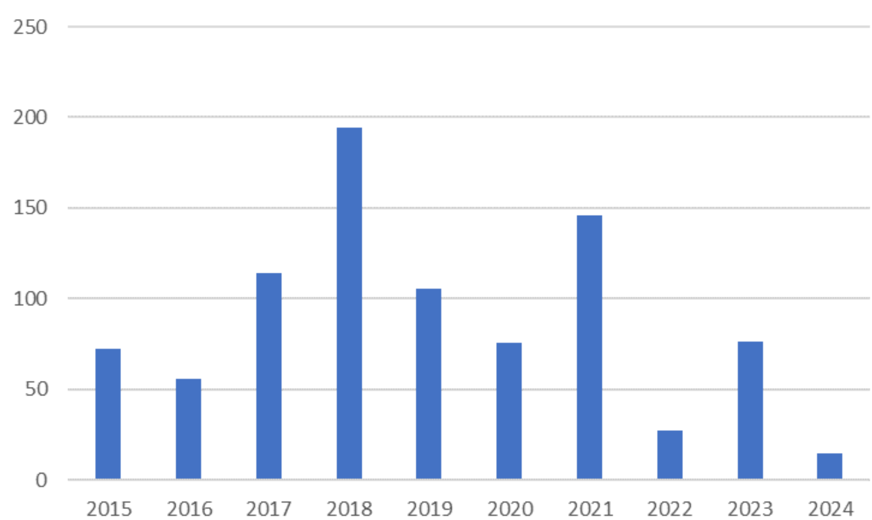
Furthermore, the sector is also strongly concentrated, with a few players accounting for the great majority of activity. These players have grown further in importance in the market during the last decade. As a result, the market at the end of 2023 was more concentrated than a decade before. This increasing concentration seemed, at least for a period, to work well and help the larger players to increase their efficiency and ability to operate cross-border. For instance, firms such as Intrum, Kruk and Axactor account for a growing number of deals on the buyer side and are active in several Member States. For instance, in Italy, Banca IFIS estimates that by the end of 2023, the top 7 servicers managed approximately EUR 300 billion (in terms of gross book value) of Assets under Management (AuM). However, in the last two-year period (2022-2023) with full-year data, these larger players appear under pressure. They are faring worse than the rest of the market in terms of profitability and indebtedness. This may be a signal of further challenges ahead for the sector, especially with regards to potential further consolidation, and of the difficulties faced by the largest players in adapting to the changed macro-financial environment. One of the largest players filed for protection from creditors in a recapitalisation procedure in the course of 2024, stoking further uncertainties for the sector. While the overall servicers sector is still small in comparison with the overall financial sector, the increase in size and concentration may nonetheless warrant further attention, including from a financial stability perspective.

[29] For example, Sweden-based credit management services business Intrum acquired Haya, a Spanish real estate-focused servicer, and London-based Pollen Street took a majority stake in Portugal- and Spain-focused loan servicer Finsolutia.

Volume of NPL deals

The volume of NPLs in EU banks' balance sheets has steadily decreased since the post financial crisis historical highs. This reduction has therefore led to a downward trend in the number and volume of deals concluded in more recent years. Nonetheless, banks in the EU still held more than EUR 372 billion in 2023. France, Spain, Italy, and Germany accounted for the lion's share of that total – approximately EUR 278 billion – with France leading the way[30]. To put the 2023 data into context, European NPLs amounted to about EUR 1 trillion in 2014.

Figure 7. Total volume of NPL deals in the EU (EUR billion)



Source: KPMG
Note: data for 2024 are provisional

With the stock of NPLs in EU banks shrinking, the need to dispose of these assets has diminished. Furthermore, the average age of NPLs in EU banks has also gone down. This is likely one of the reasons behind the decrease in the volume of NPL deals observed in 2022 and 2023 (and provisionally also in 2024), which is far lower than in previous years (Figure 7). Figures for 2022-2024 are significantly below the almost EUR 150 billion observed in 2021 or the EUR 200 billion observed in 2018. While deals totalled a low of about EUR 27 billion in 2022, they recovered in 2023, to about EUR 76 billion. During 2023, the further slowdown observed during the first half of the year was partially compensated by an uptick of activity in the second half of the year. In parallel, an increase in deals finalised as secondary sales (i.e., sales from one credit purchaser to another credit purchaser) has also been observed in the second part of 2023. So far, provisional data for 2024 indicate a volume of deals totalling about EUR 15 billion. While market participants consider the low level of NPLs as one of the main causes for the overall low level of activity currently experienced in the secondary market, the market is seen as working well overall.

[30] https://www.whitecase.com/insight-our-thinking/european-npls-new-buyers-emerge

It is also important to consider the impact of economic and political uncertainties, as well as the rise in interest rates, which has had a negative effect on NPL markets. In times of low interest rates, investors were able to acquire NPL portfolios with less-aggressive pricing, as they can still achieve reasonable returns on their investments. However, in high-interest-rate environments, investors need to ensure that the returns from the acquired NPL portfolio surpass the already elevated interest rates. Furthermore, higher interest rates directly influence the valuation of NPLs and NPL portfolios due to the application of higher discount rates by the potential buyers when carrying out their valuations.

One reason for the potential slowdown in Italian and Greek NPL deals is the withdrawal of state support for banks disposing of bad debts. In Italy, the Garanzia Cartolarizzazione Sofferenze (GACS) initiative was discontinued in 2022, while in Greece, the Hercules Asset Protection Scheme (HAPS), that expired in June 2022, was finally renewed towards the end of 2023 (therefore its impact on volumes and deals is likely to be felt as of 2024).

Nonetheless, Italian banks remain the biggest sellers of NPLs, accounting for more than half of total value in 2023[31]. Following a record year of sales in 2021, Greece saw a slowdown in its NPL market, reflecting the shrinking levels of NPLs held by banks and the – temporary – ending of its own asset protection scheme (HAPS) towards the end of 2022.

According to the H2 2023 edition of the NPL monitor for the Central, Eastern and Southeastern Europe (CESEE) region[32], NPL volumes in the region fell 6.8% to EUR 27.9 billion in the 12 months from 30 June 2022 to 30 June 2023. While some of this decrease can be attributed to NPL sales from banks to third-party investors, this is expected to account only for a fraction of the reduction, as the level of publicly reported transactions remained subdued during the period. Loans write-offs and progress on restructuring, enforcement and recovery efforts are expected to have played a key role. The H1 2024 edition of the NPL monitor, which focuses on Central and Eastern Europe, revealed that NPL volumes had stayed relatively stable, at EUR 27.5 billion at the end of 2023. In effect, this marked a marginal increase of 0.9% from 31 December 2022 to 31 December 2023.

Respondents to the NPL Advisory Panel's Survey on secondary markets for non-performing loans carried out in spring 2024[33] mostly consider the NPL market in the EU as active and sufficiently developed, albeit with few major transactions in recent years. However, 17% of respondents considered the market activity to be somewhat subdued, as a consequence of the recent limited number of transactions, caused by the low remaining stock of NPLs. In terms of transaction types, most respondents (75%) considered that outright sales of NPL portfolios from banks to third parties were the most frequent transactions, followed by securitisation (22%).

The types of assets that are perceived to be traded more frequently in NPL secondary markets are residential real estate (RRE) (57%); unsecured corporate/SME lending (49%); secured corporate/SME lending (43%); CRE (33%). Other types of assets – mostly related to retail and consumer loans – were seen as less relevant.

An interesting aspect is the still significant national dimension of these deals. While it is difficult to collect comprehensive data on the matter, the NPL Advisory Panel's Survey on secondary markets for non-

[31] Linklaters 2024 European NPL Market Outlook Note
[32] https://npl.vienna-initiative.com/
[33] https://finance.ec.europa.eu/document/download/f7f97c6d-d733-4de5-8c51-6630db78fa72_en?filename=240524-npl-advisory-panel-survey-results_en.pdf

performing loans carried out in spring 2024[34] looked at the share of cross-border transactions (involving a seller and a buyer domiciled in a different Member State) and found significant variations between Member States[35]. Before the recent implementation of the NPL Directive, local regulatory law could impede the possibility of cross-border transactions[36]. An important additional factor favouring the national dimension of these deals could be the differences in insolvency laws and judicial proceedings across Member States. This often means that local teams have to work on domestic deals. The survey also pointed to a potential underestimation of such transactions, given the tendency for foreign investors to establish a local special purpose vehicle for the purposes of the transaction. Indeed, several servicers and purchasers – although operating in several Member States – purchase and service NPL portfolios in other Member States by establishing local subsidiaries or branches, and following the national legislation of some Member States that require local purchasing. On the servicing side, companies were required to establish local subsidiaries in order to comply with national debt collection laws and licenses. This situation might change going forward with the passport introduced by the NPL Directive, but for the servicing of non-NPL debts and of NPLs not issued by credit institutions, national subsidiaries will still be needed since the NPL Directive is only applicable to the servicing of non-performing credit agreements issued by an EU credit institution.

In terms of types of portfolios, respondents found retail loans to be less well-represented in cross-border transactions, reflecting the relatively smaller overall number of retail loan transactions, but also potentially due to the existence of national restrictions, such as the requirement to be registered as a local entity to carry out transactions on retail loans or on residential real estate.

The survey also examined NPL transactions involving portfolios with NPLs located in two or more Member States, which are even less common (in the range of 0-10%). Some of the reasons cited by respondents were regulatory provisions, the declining level of NPLs in recent years, and the fact that large corporate loan sales can encompass single loans or multi-jurisdiction loans, while granular portfolio sales typically include loans from a single country only.

[34] https://finance.ec.europa.eu/document/download/f7f97c6d-d733-4de5-8c51-6630db78fa72_en?filename=240524-npl-advisory-panel-survey-results_en.pdf

[35] Very low shares of cross-border transactions were reported, e.g., in Austria, Belgium, Hungary, Poland and very high shares in, e.g., Denmark Greece, Spain, Sweden, with many other Member States standing somewhat in the middle, e.g., France, Germany, Italy, the Netherlands, etc.

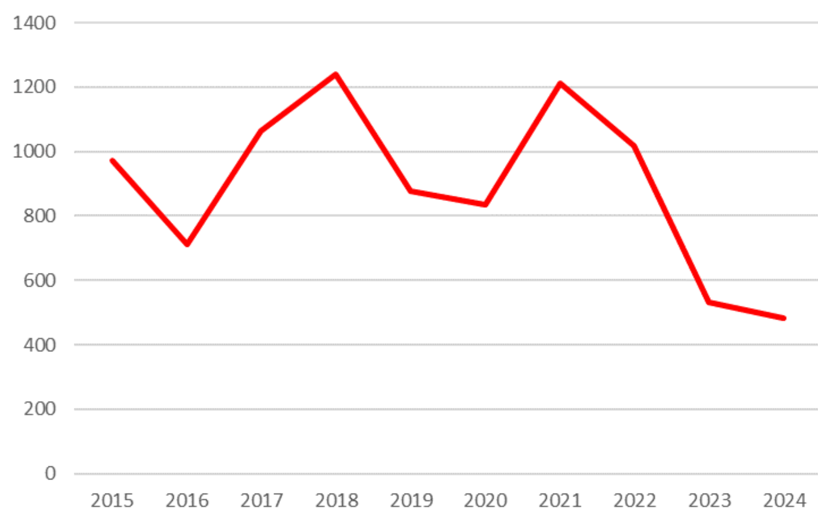
[36] The implementation period of the NPL Directive ended in 30 December 2023. Given its recent implementation it is too early to assess whether it allowed a change in regime into cross-border transactions.

Average Gross book values (GBV)

Interestingly, volumes of NPL deals seem to have had an impact on average Gross Book Values (GBVs) too. According to KPMG data, NPL deals' GBVs over the period 2015-2023 have averaged at around EUR 900 million. However, similar to the overall volumes of NPL deals during this period, average GBVs values have tended to follow the overall market dynamics (Figure 8).

Higher average GBVs in the years 2017-2022 have been favoured by the finalisation of several jumbo deals (also thanks to the development of government sponsored schemes). With the demise of these schemes and the lower overall volumes of NPLs banks needed to dispose of, average GBVs have come down significantly in the years 2023-2024. This dynamic is also consistent with the fact that banks are dealing more pro-actively with NPLs – that is, recognising them earlier and disposing of NPLs portfolios more frequently in smaller batches.

Figure 8. Average GBVs for the years 2015-2023 (EUR million)



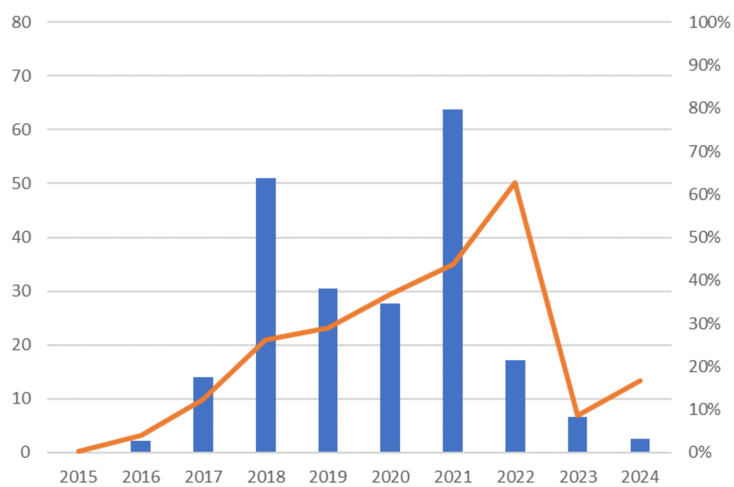
Source: KPMG
Note: data for 2024 are provisional

According to the NPL Advisory Panel's Spring 2024 survey, GBVs differ significantly across EU Member States, ranging from EUR 100 000 to EUR 500 million. Larger countries tend to have higher average GBVs, but this is not the only driver. The highest average transactions are reported in countries that had a significant share of NPLs in the past (e.g., Spain, Italy). The average GBV also seems to be influenced by the underlying assets, with higher GBVs for non-retail than for retail loans, and for secured assets than for unsecured ones. Some respondents also reported that their low average value is based on the practice of selling off recurring small tickets, which may be a good way of disposing of NPL efficiently and rapidly.

NPL Securitisation

NPL securitisation deals also decreased in volume in the EU during the last two years. This development is consistent with the decrease in total NPL deals and with the general ebb and flow of the broader securitisation market. As shown in Figure 9, the total volume of NPL securitisation deals sharply decreased as of 2022. The share of NPL securitisations with respect to the total volume of NPL deals also decreased sharply in 2023, after public guarantee schemes were discontinued[37]. There could be two main reasons behind this decrease. First, the decrease in overall NPL volumes in banks' balance sheets may have had a greater impact on the NPL securitisation segment, as this led the market to re-orient itself towards smaller and more bespoke deals, rather than securitisations, which are less fit for purpose in this context. The second reason behind the fall in NPL securitisations may be the termination of the public guarantee schemes that significantly helped the market to take off in the preceding years. Provisional data for 2024 show a slight uptick in the share of NPL securitisations but continuing to hover around the lows recorded in 2023.

Figure 9. Total volume of NPL securitisation deals in the EU (EUR billion, lhs axis) and their share with respect to total NPL deals (percentage, rhs axis).



Source: KPMG
Note: data for 2024 are provisional

According to the Association for Financial Markets in Europe (AFME) data, after the crisis, total European securitisation deals peaked at about EUR 270 billion in 2018 (but below the highs of 2010-2011) to decrease to EUR 213 billion in 2023[38]. However, data from the first half of 2024 on the broader securitisation market shows activity picking up. Issuance of securitised products reached EUR 67.7 billion

[37] The Greek 'Hercules' scheme, which expired on 9 October 2022, was actually reintroduced on 28 November 2023 for the duration of about one year (until the end of December 2024).
[38] AFME Securitisation data snapshot: Q4 2023 and 2023 full year, Q1 2024 and Q2 2024.

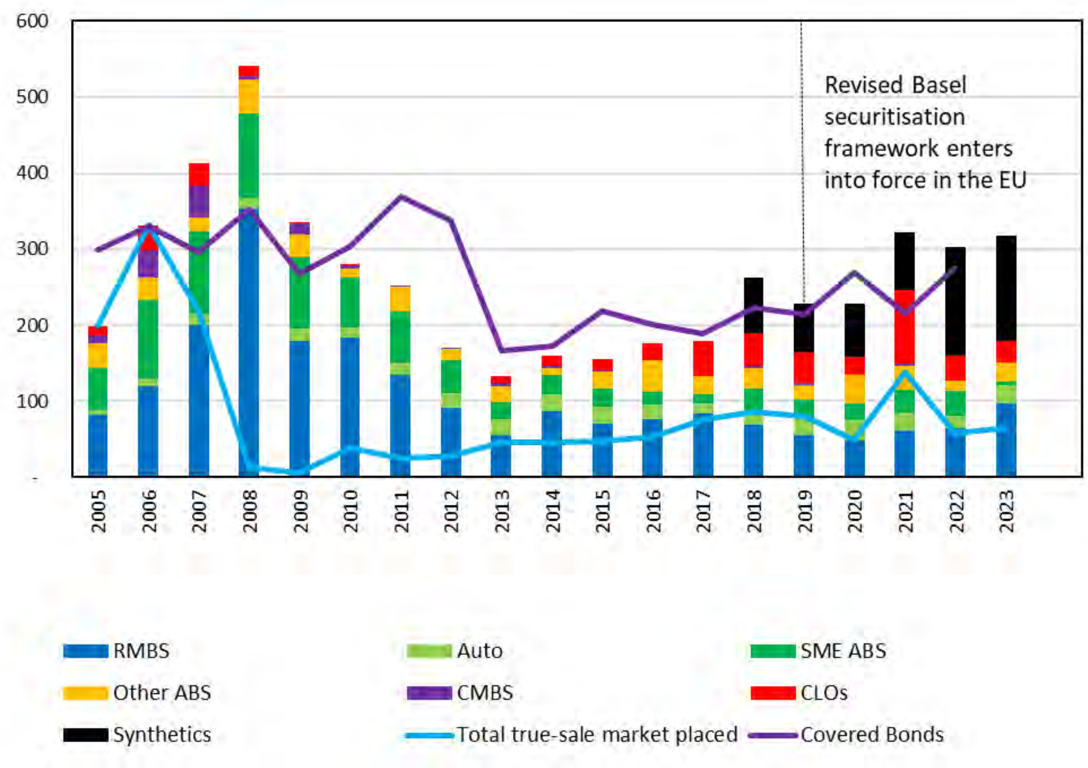
in Q1 2024 and EUR 66.6 billion in Q2 2024, as compared to EUR 39.6 billion in Q3 2023 and EUR 42.2 billion in Q4 2023.

Developments in the securitisation market are important as a comparison to further understand the dynamics in the segment of NPL securitisation market. For instance, data from the European Securities and Markets Authority (ESMA)[39] shows that the European public securitisation market has decreased significantly since the Global Financial Crisis. ESMA estimates that this market amounted to EUR 2 trillion for asset-backed securities (ABS), collateralised debt obligations (CDO) and mortgage-backed securities (MBS) at the end of 2010. At the end of 2022, there were 390 individual securitised products outstanding in the EU as reported to the registered securitisation repositories, amounting to EUR 540 billion. Fifty-four percent of these outstanding figures were linked to residential mortgages, followed by automobile loans (16%), loans to SMEs (15%) and consumer loans (12%). A snapshot of the Euro area securitisation market in June 2023 highlights a clear dominance of true-sale securitisations, accounting for approximately 72% of the total market volume. Synthetic securitisations and Asset-Backed Commercial Papers (ABCPs) make up smaller but still significant shares, at around 20% and 8%, respectively. Overall, the total securitisation market remains slightly smaller than the market for covered bonds. Data compiled by the ECB also illustrate how true-sale securitisation (Figure 10) has stabilised to lower levels since the Global Financial Crisis. However, the data also shows that the 2008 peak was the result of substantial growth in securitisation from 2006 to 2007, primarily in the form of residential mortgage-backed securities (RMBS). In 2023, RMBS was about one third of the 2008 level, having returned to the arguably more sustainable level seen in 2006. The issuance of ABS (which include auto loans, consumer loans, credit cards and leasing/equipment loans) exceeded pre-global financial crisis levels, highlighting the resilience in this segment.

In the Euro area, approximately two-thirds of outstanding securitisation amounts are held by banks, in decline from around three quarters at the end of 2017. The share of securitisation held by non-EU banks remains small but has been largely stable over time, composing 12% of the total bank-held securitisation at the end of Q2 2023. Non-bank investors have almost entirely absorbed the increase in the Euro area securitisation issuance over the past few years. The distribution of risks between banks and non-bank holdings of securitisation in the Euro area reveals a marked preference among non-banks for riskier securitisation products. Non-banks hold three quarters of the collateralized loan obligation (CLOs) and commercial mortgage-backed securities (CMBS) issued in the region. ECB calculations show that European securitisation transactions have demonstrated robust performance, characterised by low default rates both during low stress and high stress periods. However, as expected, riskier securitisation structures (CLOs and CMBS) have performed less well both from a default and a downgrade perspective.

[39] ESMA, The EU securitisation market – an overview, 21 September 2023, https://www.esma.europa.eu/sites/default/files/2023-09/ESMA50-524821-2908_TRV_risk_analysis_-_EU_securitisation_markets_overview.pdf

Figure 10 - EU true-sale securitisation and covered bond issuance, EUR billion



Source: Bloomberg, European Covered Bond Council (ECBC) and ECB calculations. Note: historical EU data excludes UK for consistency purposes. Eurosystem holdings are not included.

In a nutshell, the EU securitisation sector has proven resilient in terms of performance and risk, while the holdings by the non-bank financial intermediation (NBFI) sector have gradually grown, especially in the riskier segment. Many of these developments are a testament to the important legislative initiatives adopted to revive the securitisation market. The EU NPL securitisation market has moved in parallel with the broader securitisation market, although there were some differences due to the peculiarities of the NPL market. First, the flow of NPL securitisation deals has decreased over 2022-2023, especially due to the decrease in the overall level of NPLs. Furthermore, NPL securitisation, given the higher variability of the underlying flows, has sometimes shown less robust performance with respect to the overall securitisation market[40]. However, all things being equal, given the higher volatility of cash flows in NPL securitisations, the greater involvement of the NBFI sector is also consistent with broader developments in the securitisation sector.

In terms of expectations for the coming months, NPL securitisation deals are expected to continue following the broader securitisation market. However, given the current low level of NPLs in the EU, the volume of NPL securitisations is not expected to significantly pick up in the near future. Furthermore,

[40] See, for instance, [NPL Advisory Panel paper on further developing secondary markets for non-performing loans: the role of securitisation]

securitisations of smaller sized NPL portfolios, re-performing loan (RPL) portfolios mixed-asset-class transactions involving non-performing loans and unlikely-to-pay loans are also possible[41].

RPLs

Another interesting dynamic that is taking shape in the NPL market is the growing importance of re-performing loans (RPLs): NPL claims that are once again "performing", with borrowers' payments back on (original or adapted) schedule. This debt can be put up for sale by distressed debt investors, as has been observed in several 2023 deals taking place in Greece and Spain. Distressed debt investors are often keen to sell such loans, both to secure a return and to free up resources to focus on their core activity of managing NPLs[42].

The extent to which reperforming loan sales will accelerate is not clear, also because, so far, they represent a very limited portion of the market. While they were about 5% of total deals in 2023, in terms of volume, according to KPMG data, they seem to have increased to about 8% of total deals in 2024 (but data are provisional). Their importance will certainly depend on broader macroeconomic dynamics, as an economic downturn could reduce the number of re-performing NPLs, while an economic upturn could play in their favour. On the other hand, the current dynamic – with a low level of NPLs and therefore a more limited scope for deals – is encouraging more interest in this category, as well as that of sub-performing loans (SPLs). Interestingly, given the contiguity between SPLs, NPLs and RPLs, many market participants see these three categories of assets as fundamentally belonging to the same market. However, the legislation covering each of these categories differs markedly. Consequently, these segments are subject to very different rules, which may hinder a more holistic approach to the overall sector (e.g. SPLs, NPLs, and RPLs) by the market.

Secondary sales

Secondary sales are sales of NPL portfolios by specialised investors, credit purchasers or servicers that have previously purchased them from originators. According to KPMG data, the share of deals in the form of secondary sales accounted for around 16% of total deals in the EU in 2023[43], while preliminary data for the first half of 2024 showed a slight uptick, with secondary sales deals around 18.5% of the total. The weight of secondary sales has increased steadily over the years, as bank disposals of NPLs moderated. According to data collected and interpreted by Banca IFIS, in the Italian NPL market, the share of secondary sales is expected to increase from about 30% in the period 2021-2022 to slightly more than 40% in the period 2023-2025.

According to White & Case, secondary sales are used for instance by private equity (PE) firms seeking to exit positions. Larger servicing companies are also advising investors to actively trade NPL portfolios or

41 https://assets.ctfassets.net/dqx4ywg83raq/3dHUM4hdguUcZ8a8RI0ju8/098bbd99b4dcae751331872382143ed0/426402.pdf

42 https://www.whitecase.com/insight-our-thinking/european-npls-new-buyers-emerge

43 Deals on the NPL market encompass loans that are originated from banks' balance sheets (here referred to as primary deals) and sales of (part of) NPL portfolios that are already in the market (here referred to as secondary market deals). Total deals thus encompass both primary and secondary deals.

parts thereof in the secondary market to achieve the profitability objectives of the overall portfolios. A related trend is the growing interest in dividing parts of the portfolio to sell to specialist acquirers. This also explains why secondary sales transactions present a lower average GBV than primary sales. The increased activity in the form of secondary sales could also be a sign of increased efficiency, as NPL portfolios are repackaged according to more tailored needs or resold to more specialised investors. The activity of secondary sales can therefore be expected to continue to grow in importance as investors continue to reassess the best business strategy for each portfolio and as activity on primary markets is not expected to pick up significantly.

Type of loans

Figure 11 below shows that since 2015 the majority of NPL deals concerned secured loans portfolios (amid significant variability from one year to the other, also due to the significant variation brought in by jumbo deals in the 2017-2022 period). The rest of the deals concerned unsecured loans portfolios and mixed loans portfolios (whose share of the total has been particularly erratic).

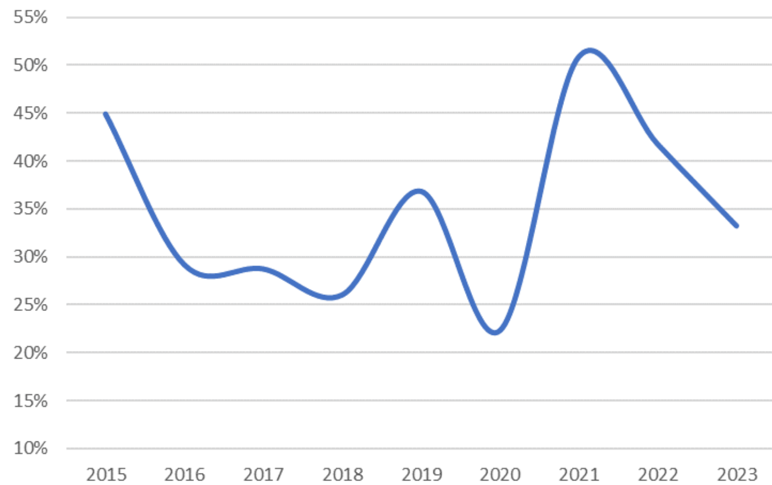
A sample of about 200 deals for the 2015-2024 period, for which pricing is available, shows an average pricing of the deal of about 35% of the GBV. Pricing depends on many criteria (e.g., age of the single debt, amount of the single debt, level of collection activities performed pre-sale, existence of security, kind of security, rank of security, loan-to-value ratio, etc.). The significant differences across claims consequently make a certain degree of volatility inherent in the market. This, however, makes it difficult to draw further conclusions on the developments in average pricings. Indeed, what Figure 12 highlights is the significant volatility of average pricings through time. Furthermore, besides loan-specific elements, macroeconomic considerations can also play a role in pricings. For instance, interest rates also have an impact on pricing, as rising interest rates tend to increase discount rates for valuations. The high volatility of average pricing may also be related to limited price discovery in the market, as also mentioned in some responses to the NPL Advisory Panel Survey.

Figure 11. Share of NPL deals by type for the years 2015-2023 (EUR billion)

Year	Share of total deals		
	Unsecured	Secured	Mixed
2015	14.0%	62.0%	24.0%
2016	40.3%	56.2%	3.5%
2017	8.6%	72.7%	18.7%
2018	18.3%	54.9%	26.8%
2019	29.1%	53.8%	17.1%
2020	25.4%	71.0%	3.6%
2021	14.6%	67.7%	17.7%
2022	14.8%	82.5%	2.7%
2023	30.8%	43.5%	25.7%
2024	*19.6%*	*38.1%*	*42.3%*

Source: KPMG
Note: data for 2024 are provisional

Figure 12. Average pricing of NPL deals for the years 2015-2023 (percentage of GBV)



Source: KPMG

Note: Provisional data for 2024 show a further decline in average pricing, but the number of deals with available data on pricing is too limited to consider this information robust. Therefore, it has not been included in the chart.

As shown by Bank of Italy data (Table A), average pricing for secured NPLs is normally substantially higher than for unsecured loans. While actual pricing values in different countries may differ, the data for Italy (below) are consistent with expectations and also provide guidance for understanding pricing of different types of NPL portfolios in other countries. Pricing would certainly warrant more analysis in the future, to assess whether more consistent trends emerge, and whether efficient pricing of NPLs in the secondary market faces any significant barriers.

Table A - The sale prices of bad loans by type of guarantee
(per cent)

	TOTAL	Positions secured by collateral	Unsecured positions
2016	**14.9**	30.5	9.1
2017	**16.5** (*)	26.2(*)	9.9 (*)
2018	**23.1**	33.8	10.0
2019	**23.3**	31.2	11.8
2020	**23.5**	35.2	10.4
2021	**20.1**	29.1	11.2
2022	**21.4**	31.5	12.0

(*) Net of the FINO operation concluded by UniCredit, the average prices of positions secured by collateral and unsecured were respectively equal to 33 and 9 per cent of the gross book value; the average price overall was 20.4 per cent.

Source: Bank of Italy

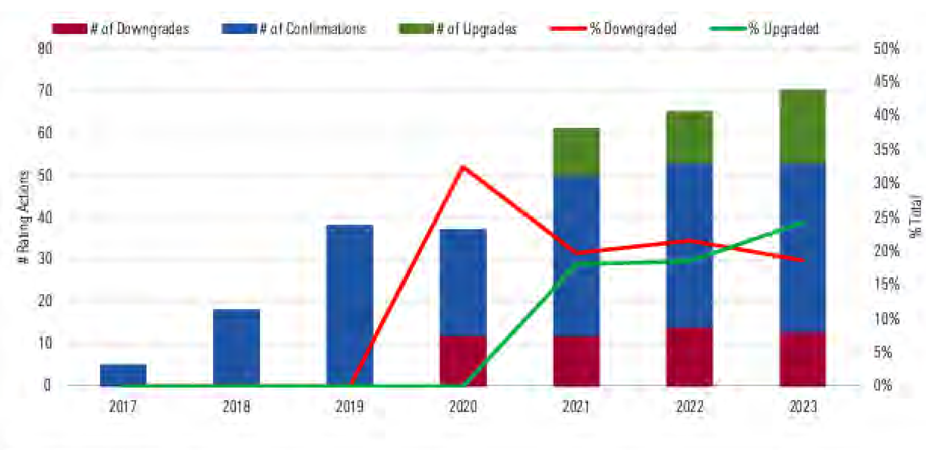
Performance

Performance at the NPL portfolio level is difficult to assess, given the lack of comprehensive data for the EU and the variability of European legal systems, individual collection processes applied and performance indicators across different stages of the NPL portfolio.

One possible indicator of performance is offered by the rating evolution of existing rated NPL portfolios. Analysis by Morningstar DBRS suggests NPL transactions that have taken place since the outbreak of the COVID-19 pandemic have performed strongly, with recoveries proceeding at a better rate than expected. With a focus to NPL securitisation, where the majority of ratings can be collected, according to Morningstar DBRS, 2023 was a year where the NPL securitisation market stalled: none of the transactions that were put on hold after the ECB started increasing interest rates resumed during 2023[44]. In terms of rating performance, 2023 was not particularly eventful, with the lowest downgrades. For the first time, upgrades outnumbered downgrades.

However, other indicators are less nuanced. For instance, concerning Italy, the 46 portfolios rated by Scope, securitised from 2017 to 2022, form a significant cluster of NPL transactions, useful for analysing the performance of recovery compared to business plans. Fifty per cent of the EUR 111 billion of securitised GBV has a positive performance (equal to or greater than 110% of the target performance) or is in line with the original business plan. The portfolios that perform better than the targets are those with more recent transaction dates (from 2020 to 2022), on which no negative deltas relative to business plan targets have yet been recorded. The portfolios with negative performance relative to business plan targets are concentrated in the period between 2017-2018 and to a lesser extent in 2019. These may have been impacted by delays related to the pandemic, particularly those concerning the operation of courts, as these portfolios have a high incidence of secured assets. Italian GACS portfolios seem to be underperforming more significantly. According to Scope Research, 14 out of the top 25 GACS transactions underperformed relative to their initial business plans, while annual NPL collections were EUR 226 million, reflecting 21% against the previous two-year average.

Figure 13. Morningstar DBRS European NPL Rating Activity

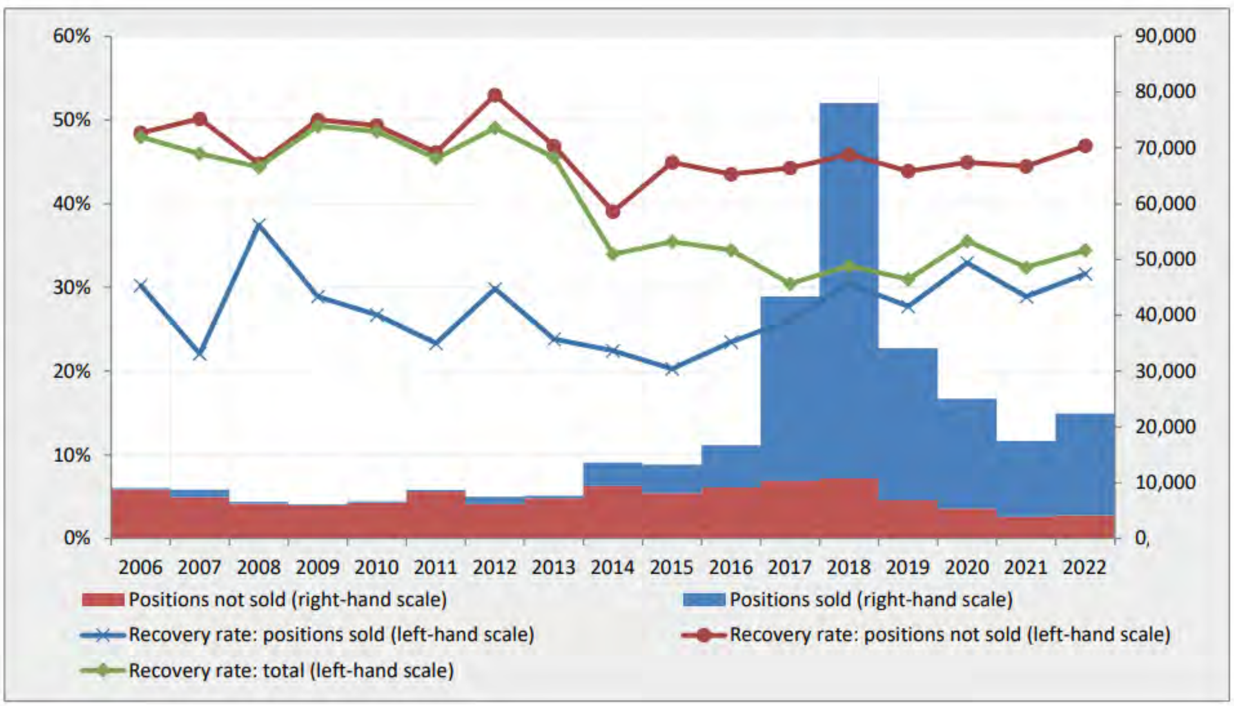


Source: Morningstar DBRS.

[44] https://assets.ctfassets.net/dqx4ywg83raq/3dHUM4hdguUcZ8a8RI0ju8/098bbd99b4dcae751331872382143ed0/426402.pdf

Data from the Bank of Italy concerning recovery rates in Italy can also help shed further light on the issue (Figure 14). Recovery rates in Italy seem to be gradually increasing since the low observed in 2015. Compared with 2021, the average recovery rate in 2022 increased for the positions sold on the market (from 29 to 32%) as well as for those closed using standard recovery procedures (from 45 to 47%). The average recovery rate for bad loans secured by collateral was equal to 40%, higher compared with 2021 (38%) due to disposals, whose recovery rate moved from 34 to 38%. For the unsecured positions, the average recovery rate was 27%, an increase compared with the previous year (25%), both on bad loans sold to third parties (from 22 to 24%) and on those closed using standard recovery procedures (from 35 to 42%) from the perspective of credit servicers and purchasers. It is important to note that investors have to deduct from the recoveries all transaction costs, cost of capital, costs of servicing (including lawyers, court and bailiff fees), overhead costs and advisory costs. Considering the often-long-term time frame needed to recover these loans, both cost of capital and operational costs are significant.

Figure 14. Bad loan recovery rates and value by year and type of closure (percentage and EUR million)



Source: Bank of Italy and Italian Central Credit Register

Costs, fees and forbearance measures

Costs

According to the NPL Advisory Panel's Spring 2024 survey, total **transaction costs**[45] vary considerably across Member States and types of transaction but have not changed significantly. Most respondents (about 80%) reported average total transaction costs (including all internal and external costs) of 0.25%-3% range of Gross Book Value, with about half of respondents reporting costs no higher than 1% of GBV. However, slightly less than 20% of respondents reported much higher total costs (starting from 5% and up to 20%-30%).

Where legal and advisory fees are involved (mainly in large, secured transactions), they account for 40%-75% of total costs. However, some respondents mainly have internal costs and report no external fees when using in-house resources, for instance for standard retail transactions and unsecured loans. According to several respondents, higher transaction costs are incurred for secured portfolios than for unsecured portfolios, with jumbo deals helping to reduce the incidence of these costs / fees. For sales, legal and advisory fees can be 50% of the typical average cost, while for securitisations they can be as high as 80%.

About 80% of respondents saw no significant change in transaction costs. A minority reported cost increases stemming from higher legal fees, elevated funding costs and more stringent requirements. An even smaller contingent of respondents pointed instead to a slight decrease in average costs, mostly due to market efficiencies and lower advisory fees.

As regards **debt collection costs**, an analysis of debt collection practices in 19 EU Member States conducted by Intrum and EOS in September 2024 reveals that debt collection remains largely shaped by national debt collection laws, consumer protection laws, as well as local codes of conduct or judicial practices.

The analysis identifies some distinct patterns in **debt collection fee models** across the Member States, however, with debt collection fees varying widely and sometimes differentiated depending on whether the debtor is a business or a consumer. The national laws of five countries prescribe a thresholds/staircase model[46:] Austria (EUR 8.33 to EUR 111.05 per case and per action taken), Belgium, Finland, Germany and Denmark (from DKK 500 /EUR 67[47] to DKK 7,700/EUR 1,032 for principal debts up to DKK 500 000 / EUR 67 043, and a fixed fee of DKK 7,700 /EUR 1,032 plus 1% of the principal amount for debts exceeding DKK 500 000 / EUR 67 043).

A degree of harmonisation across the EU exists in the context of business-to-business (B2B) debts, where Directive 2011/7/EU (the Late Payment Directive)[48] establishes a consistent framework for compensation for recovery costs. Article 6 of the Directive sets a fixed minimum sum of EUR 40 for cases where interest for late payment becomes payable in commercial transactions. As clarified by the European Court of

[45] Total transaction costs include all internal - analysts, lawyers, etc. - and external (lawyers, appraisers, other advisors) costs necessary to complete the transaction.
[46] In a staircase model, different tiers are predefined. Fees are imputed for any units in the tier.
[47] Based on the ECB conversion rate of EUR 1 = DKK 7.4579 on 3 October 2024.
[48] Directive 2011/7/EU of the European Parliament and of the Council of 16 February 2011 on combating late payment in commercial transactions (OJ L 48, 23.2.2011, p. 1).

Justice (Case C-585/20)[49], this amount should be paid for each individual invoice that is paid late, even when multiple invoices refer to the same contract. In addition, the creditor is also entitled to reasonable compensation for any recovery costs that exceed the fixed sum (for instance, for expenses incurred when mandating a lawyer or employing a debt collection agency).

In September 2023, the Commission put forward a proposal for a Regulation[50] to revise the current Late Payment Directive as part of its SME relief package[51]. Under the proposed revision, the fixed minimum sum would increase from 40 to 50 EUR per invoice paid late. The text was voted in first reading by the European Parliament in April 2024.

However, these initial steps towards harmonisation have not extended to business-to-consumer (B2C cases), where the situation varies from country to country. In Sweden a fixed debt collection fee (SEK 180 per invoice) has been set up for B2C cases, similar to B2B cases. In Italy, debt collection fees can be either fixed amounts or percentages of the amount of debt to be collected as stipulated in the servicing agreement, while for Portugal no fee was mentioned, but a default interest rate of 4% applies on due and terminated loans as stipulated in local civil law. Finland's debt collection fees are based on the requirement of fair debt collection practices as stipulated by local debt collection law and depend on the amount and type of receivable.

There are also countries that do not allow debt collection fees to be charged to consumers: Belgium (except contractual interest and fees for non-payment), Bulgaria, Croatia (except employment checks and instrument activation fees in the national database FINA), Greece, France (where collection fees are not allowed for amicable debt collection), Netherlands and Spain. In Poland, debt collection fees are generally not applied where the servicer administers the application of fees on behalf of the creditor.

In cases that are disputed in the courts, the **structure of legal fees** varies significantly. Four countries - Croatia, Austria, Italy and the Netherlands - apply fixed fees, whereas Denmark, Finland and Sweden use hourly rates. Bulgaria allows for either fixed fees or success fees, while Slovakia applies success fees. Nine countries – Belgium, Czechia, France, Germany, Greece, Hungary, Poland, Slovenia and Spain – employ other models. In many countries, legal fees or their various components (court application fees, bailiff fees, attorney fees, etc.) are applied and calculated based on rules established in national laws, which can take the form of fixed amounts, percentages, or a combination of both. Additional details are presented in Annex II.

We can conclude that the landscape of transaction costs, as well as debt collection and legal costs in the EU is characterised by significant variation and complexity, reflecting the diverse regulatory frameworks and practices across Member States. While some patterns and trends emerge, the overall picture suggests that costs can vary widely depending on the jurisdiction, the type of transaction, and specific circumstances, highlighting the need for investors and debt servicers to tailor their approaches and carefully consider local factors in navigating these costs. The complexity associated with cross-border debt servicing can also limit the ability of debt servicers to operate across multiple jurisdictions.

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[49] https://eur-lex.europa.eu/legal-content/GA/TXT/?uri=CELEX:62020CJ0585

[50] Proposal for a Regulation of the European Parliament and of the Council on combating late payment in commercial transactions, COM/2023/533 final, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2023:533:FIN

[51] Championing Europe's SMEs: Commission provides new relief to boost the competitiveness and resilience of SMEs, 12 September 2023, https://ec.europa.eu/commission/presscorner/detail/en/ip_23_4409

It should be noted that the NPL Directive is only applicable to the servicing of bank credits, effectively excluding the servicing of other debts, such as overdue invoices for utility services (electricity, water supply), telecom services or goods purchased through various channels (e.g., emerging areas like e-commerce market and shadow banking products).

In the longer term, it is possible that the lack of harmonised regulation at EU level for the servicing of non-bank debts could have negative consequences for consumers, the debt servicing sector, as well as the functioning of NPL markets.

For consumers who are facing financial difficulties – and who often have problems paying off both their bank and their non-bank debts – there is a risk of inconsistent treatment of their debts.

For the debt servicing sector, the regulatory differences risk creating an uneven playing field, potentially giving an advantage to debt servicers who operate predominantly or exclusively in the less-regulated sector of non-bank debts.

Finally, the lack of regulation on the servicing of non-bank debts risks affecting the pricing for purchasing and servicing NPL portfolios, thereby distorting competition. This may make bank debt portfolios less attractive, potentially undermining the secondary markets for bank credits.

From the perspective of EU consumers, the levels of debt collection costs and fees that are charged to them clearly depend on the country they live in and the type of debt they have. While some countries have strict regulations and low or no debt collection fees, other countries make it possible for consumers to be charged higher fees. Furthermore, the costs incurred by creditors in the form of court fees and lawyer fees also vary significantly among countries, both in terms of their amount and the possibility of passing these costs to the borrowers. This uneven landscape can have significant implications for the financial well-being of consumers who have defaulted on their payment obligations and to whom costs and fees are charged as a consequence.

The NPL Directive allows Member States to require, where applicable, that the charges imposed by lenders on consumers because of default, do not exceed what is 'necessary' to compensate the creditor for costs resulting from this default. Where Member States allow creditors to impose additional charges on consumers in the event of default, they must place a 'cap' on these charges. However, the exact amount of this compulsory 'cap' is left to the Member State's discretion: consequently, practices vary widely from one Member State to another, as explained in the preceding chapter on costs and fees.

Forbearance measures

This section will focus on forbearance measures granted to consumers, in the context of the high inflation and rising interest rates of the past few years[52].

There is no strict obligation to offer forbearance measures to consumers or corporate borrowers in financial difficulties[53] and the setting of charges for forbearance measures and default are left to Member States, which leads to diverging practices among different EU countries.

Indeed, according to Article 16a of the NPL Directive[54],"*Member States shall require creditors to have adequate policies and procedures so that they make efforts to exercise, where appropriate, reasonable forbearance before enforcement proceedings are initiated."* The article further provides a list of forbearance measures that may consist of a total or partial refinancing, a modification of the terms of conditions of the credit agreement, an extension of the term of the credit agreement, a change in interest rates, a payment holiday, etc. While this Article is found in the NPL Directive, it does not only concern forbearance measures applied to non-performing loans, but more widely forbearance measures "before enforcement proceedings are initiated" (article 27 NPLD), which includes the time period before the loan becomes non-performing. Also, it should be noted that the latest version of the Consumer Credit Directive uses a stricter wording in that it requires, in its article 35(1), creditors "to exercise, where appropriate, reasonable forbearance before enforcement proceedings are initiated".

Indeed, the main aim of forbearance measures should be to avoid a loan becoming non-performing . The survey found that most respondents offer forbearance measures to borrowers who are unlikely to repay their loans under the current conditions. The vast majority of respondents (85.5%) reported offering borrowers the possibility to amend existing terms and conditions (corresponding to Article 28(1)(b), inserted in Directive 2014/17/EU by Directive 2021/2017/EU – the NPL Directive), while 44.5% offered a total or partial refinancing of the credit agreement (corresponding to Article 28(1)(a), inserted in Directive 2014/17/EU by Directive 2021/2017/EU – the NPL Directive). Only 10% offered other measures. Within the various forms that the modifications of the terms and conditions can take, term extensions, instalment deferrals and payment holidays are the most common (see Figure 15).

Many respondents estimated that such measures led to a reduction in the total cost of the credit for the borrower, but only to some extent (36.7%) or marginally (21%). Only 2% of respondents considered that a significant cost reduction would be achieved. On the other hand, 30% of respondents did not find that forbearance measures led to a cost reduction.

[52] In addition, data on forbearance measures granted to companies remains quite scarce. According to the responses to the NPL Advisory Panel survey, only 31% of the survey respondents reported having in place specific measures to help SMEs maximise the repayment of their loans and avoid default, while 26.7% did not have such measures.

[53] As regards debt collection companies, they generally have the ability, in most EU countries, to package different categories of outstanding debts, even from different originators, and compile them into a holistic payment plan for the individual. This allows the debtor to eventually resolve his/her debt situation.

[54] Directive (EU) of the European Parliament and of the Council of 24 November 2021 on credit servicers and credit purchasers and amending Directives 2008/48/EC and 2014/17/EU (Text with EEA relevance)

Figure 15 – Types of modifications to the terms and conditions of the credit agreement offered to borrowers[55]

		Answers	Ratio
Extending the term of the credit agreement		54	60 %
Changing the type of credit agreement		14	15.56 %
Deferring payment of all or part of the instalment repayment for a period		53	58.89 %
Changing the interest rate		21	23.33 %
Offering a payment holiday		46	51.11 %
Partial repayments		39	43.33 %
Currency conversions		3	3.33 %
Partial forgiveness and debt consolidation		27	30 %
Other		3	3.33 %
No Answer		16	17.78 %

Source: The NPL Advisory Panel's Survey on secondary markets for non-performing loans carried out in spring 2024

However, responses to the survey vary widely from one country to another. Fifty per cent of Italian respondents say they offer a change of interest rates as a possible modification to the terms and conditions of the credit agreement, while only 11% of German respondents (and no French respondent) do. As to offering payment holidays, while 55.5% of German respondents describe it as a common practice, the figure is only 20% of respondents in France, where the type of modification that is most offered is the extension of the term of credit agreement (60% of respondents). The European Commission-mandated study on European consumers' over-indebtedness also judged that the effect of the NPL Directive would overall depend greatly on the different national landscapes.

European Commission figures on the share of consumers in arrears with financial commitments (8.8% of EU households in 2020, that is 17.2 million households or 40 million people across the EU) suggest that not all consumers experiencing financial difficulties are offered forbearance measures. Indeed, the forbearance ratio, that is the stock of forborne loans divided by the total value of loans outstanding in that time period, is stable at low levels, about 14%. Figures collected by *UFC Que Choisir* show that less than one third of NPLs in France were subject to forbearance measures in 2019. Data from Altroconsumo shows that during Covid pandemic, only one out of four borrowers experiencing financial difficulties was able to suspend loan repayments in Italy, before the loan became non-performing.

Not offering forbearance measures leads to a higher number of underperforming or non-performing loans that are either kept in balance sheets, thereby reducing the lending capacity of the financial

[55] The types of modifications correspond to numbers (i)-(viii) in Article 28(1)(b), inserted in Directive 2014/17/EU by Directive 2021/2017/EU – the NPL Directive.

institutions, or sold at significantly discounts to the secondary market. This could partially be prevented by offering reasonable forbearance measures that re-establish the borrower's ability to repay the loan.

Even when forbearance measures are offered, they might lead to higher overall costs over the life of the loan. For example, pausing the repayments of a credit often leads to an extension of the contract for payment protection insurances.[56] Where credit moratoria are offered (e.g., during Covid pandemic), some consumers had to continue paying interest rates during the moratoria, pay charges for changes in the repayment plan, increasing the overall cost[57]. In addition, consumers are sometimes offered very expensive offers to refinance their credit, for instance refinancing credit with overdraft facilities and credit cards that come with significantly higher interest rates. It should be noted that some market players established ethical guidelines in this context, to make sure that this kind of thing does not happen.

Issues with debt collection practices

In several countries, problematic practices related to debt collection – that cannot be generalized to the whole debt collection market - have been reported.

One potential problem is when debt collection agencies, or companies that claim to be debt collection agencies, try to recover debt that has already been paid off or for which there is no (longer a) legal basis.[58] For instance, in France, the French competition and consumer protection authority (DG CCRF) discovered in 2020 that 26.5% of the 68 controlled debt collection companies were using practices that could be considered misleading or unlawful, such as implying that the fees related to judicial proceedings would be charged to debtors, or claiming undue sums that are presented as "ancillary costs" or "costs of the act" but are in fact being taken by the debt collection company as payment[59]. Finance Watch reports that some debt collection agencies sometimes use practices that consumers perceive as aggressive. This includes repeated phone calls, using a spoofed phone number for phone calls, using language perceived as aggressive, visits at times perceived as inappropriate, and approaching the indebted consumer's friends or family. Misleading and unfair practices may include falsely representing, or the collection of undue interest, fees and charges.[60] The Polish Competition and Consumer Protection Authority UoKiK has imposed a fine for aggressive and misleading behaviour taking place before and after the termination of loan agreements on a consumer lending company which collected their own claims [61]. In Germany, VZBV (Verbraucherzentrale Bundesverband) and their members received over 3,800 complaints about debt collection between January and July 2023[62] (which could also partially include complaints against either non-registered companies which illegally conduct debt collection actions

[56] https://www.test-aankoop.be/geld/hypotheekleningen/nieuws/uitstel-afbetaling-woonkrediet
[57] https://www.vzbv.de/pressemitteilungen/stundung-von-krediten-verbraucher-zahlten-drauf, https://www.arbeiterkammer.at/service/presse/Hohe_Spesen_bei_Aenderungen_des_Kreditvertrages.html
[58] https://www.test-achats.be/famille-prive/droits-des-consommateurs/dossier/bureaux-recouvrement/si-vous-netes-pas-entendu
[59] https://www.economie.gouv.fr/dgccrf/laction-de-la-dgccrf/les-enquetes/controle-du-recouvrement-de-creances-commerciales-pendant
[60] https://www.finance-watch.org/wp-content/uploads/2020/01/Report_Human-dignity_final_with-annex.pdf
[61] https://finanse.uokik.gov.pl/finanse/prezes-uokik-nalozyl-4-mln-zl-kary-na-profi-credit-polskauokik-nalozyl-4-mln-zl-kary-na-profi-credit-polska/
[62] https://www.vzbv.de/sites/default/files/2023-10/23-10-09_Positionspapier_Verbandsthema%20Inkasso_final-blanko.pdf

without being registered or even criminals using alleged debt collection as part of their fraudulent schemes).

According to an academic paper published in 2021 in the Journal of Consumer Policy on the regulation of abusive debt collection practices in the EU,[63] the existence of a licencing and supervision regime is key when analysing the level of consumer protection in a country. The paper analyses how debt collection practices, in particular non-judicial, are regulated in EU Member States. It found that 17 Member States did not have sector-specific legislation addressing abusive non-judicial debt collection practices. Nine Member States had sector-specific legislation (Belgium, Denmark, Finland, Germany, Greece, Latvia, the Netherlands, Romania, and Sweden)[64]. Most of the Member States that require debt-collectors to be licenced to operate are those where sector-specific legislation is in place, with the notable exception of the Netherlands and the addition of Austria, France, and Italy. The article concludes that the difference in national models creates potential issues and discrepancies regarding consumer protection across the EU, which affects the functioning of the single credit servicing market. The paper advocates for the implementation of an EU-level harmonized sector-specific regulation of abusive debt collection practices.

At EU level, the Unfair Commercial Practices Directive (UCPD)[65] provides a framework for addressing potentially abusive debt collection practices, thereby offering consumers some protection. However, the paper found that so far it had only been used to tackle such practices in 13 Member States.

The paper's findings also suggest that in 2021 only 11 Member States had licensed the activity of debt-collection companies, which raises concerns about potentially unfair practices. While the NPL Directive aims to remedy this situation for bank debts, non-bank debts are not in scope of the Directive.

The paper also looked at the estimated number of complaints received by more than 167 consumer associations or organisations, supervisory agencies, and financial ombudsmen in 26 EU Member States, in connection with abusive debt collection practices. Among respondents, institutions from 17 Member States indicated that they had received complaints referring to a wide spectrum of practices, including mistakes in connection with the amount of the debt or the identity of the debtor, the use of false, deceptive or misleading forms, or behaviour towards the debtor perceived as aggressive.

However, in the absence of granular quantitative data on abusive debt collection practices across the EU, debt servicers argue that high numbers of complaints do not reflect widespread malpractice in the actual debt servicing industry, but are rather a symptom of more complex issues: unlicensed players

[63] Stănescu, CG. Regulation of Abusive Debt Collection Practices in the EU Member States: An Empirical Account. Journal of Consumer Policy 44, 179–216 (2021), https://doi.org/10.1007/s10603-020-09476-8[64] Austria has specific legislation on the occupational licensing of debt collectors but it does not cover abusive debt collection practices, France has some rules on written communication with consumer-debtors in the Code of Civil Procedure, which is not deemed a sector-specific legislation given the general nature of the Code, Hungary has a non-binding Guideline on debt recovery issued by the Central Bank, Malta did not provide any data but there are indications that it does not have any sector-specific legislation.

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[65] Directive 2005/29/EC of the European Parliament and of the Council of 11 May 2005 concerning unfair business-to-consumer commercial practices in the internal market and amending Council Directive 84/450/EEC, Directives 97/7/EC, 98/27/EC and 2002/65/EC of the European Parliament and of the Council and Regulation (EC) No 2006/2004 of the European Parliament and of the Council (OJ L 149, 11.6.2005, p. 22).

operating in Member States with licencing obligations, a less regulated market in Member States where there are no licencing obligations, the increase in scams by unlicensed and unlawful debt collection operators using aggressive tactics that creates a new threat to consumers.

Conclusion

This paper provided a detailed overview of the current state of play in EU NPL markets and of their development. This analysis is particularly timely, given the significant legislative and market developments that have taken place in the EU since the Global Financial Crisis. During the last decade, NPL levels have reduced significantly throughout the EU. Several legislative initiatives have been adopted to foster the development of the NPL secondary market in the EU. Such development allowed EU banks to dispose of their NPL portfolios. Furthermore, the NPL Directive's implementation period ended on 29 December 2023[66]. The application of the Directive is expected to further foster the development of NPL secondary markets, and so it is important to take stock of how these markets are currently faring.

The analysis has been structured along three main avenues of research. First, the evolution of NPLs in the EU – including their potential outlook, which will likely be influenced by the cost-of-living crisis. Second, a detailed analysis of NPL secondary markets has been carried out. Third, a number of consumer-related issues have been considered.

As regards the evolution of NPL levels in the EU, the overall level/ratio of NPLs in banks' balance sheets is low (1.9% of the lending portfolio in Q3 2024) – in fact close to historical lows. Several factors have made it possible to reach this low level. During the previous years, the sustained activity in NPL secondary markets helped banks to dispose of their (sometimes very large) NPL portfolios. Then public support measures helped keep NPL levels low in the face of the Covid-19 crisis. Furthermore, banks were encouraged to dispose of their NPLs more promptly by the increased development in NPL secondary markets, as well as the regulatory changes that improved the rules to facilitate the development of the secondary markets for NPLs and to require earlier recognition by banks of exposures becoming NPLs (e.g., changes to CRR Art. 47a), Apart from the effect of the improved economic environment, the current low level of NPLs is also thanks to a more proactive approach by the banking sector that recognises NPLs early on and has more options to dispose of them on an ongoing basis (mostly through small portfolios).

However, there is also significant variability in the sector. For instance, smaller banks usually have higher NPL ratios and lower levels of asset quality. One possible factor behind this is the fact that smaller banks face greater difficulty disposing of their NPLs. Cross-sectoral differences are an additional source of variability, with some sectors (e.g., CRE) having markedly higher NPL ratios and a worse outlook than others. The overall outlook seems to reflect the current uncertain business climate, together with the expectation of a further deterioration of asset quality (as measured by, for instance, Stage 2 assets).

As regards NPL secondary markets, the current state of play is one of decreased activity in terms of volume of deals, after the 2017-2021 period that witnessed the disposal of the large stock of NPLs. The current lower activity in NPL secondary markets is primarily due to the low levels of NPLs in banks'

[66] A significant number of Member States did not implement the Directive into national law until the end of the implementation period; for details about the ongoing infringement procedures, please see: https://finance.ec.europa.eu/credit-servicers-and-credit-purchasers-directive_en

balance sheets. Consistent with this, the average size of deals has also diminished. This can also be seen in the limited number of NPL securitisation deals, which have decreased even more. This seems to be linked with the discontinuation of some public guaranteed schemes, on the one hand, and on the other hand, the fact that turning to securitisation for smaller-volume deals is less convenient. However, the low level of new NPLs is bringing some interesting developments. For instance, the average Gross Book Value (GBV) of deals seems to be decreasing. On the other hand, average pricing is showing a significant variability, but without a clear trend. On this latter point, while the variability is inherent in the different subsegments and types of claims, in the future it would be worth further analysing the potential presence of barriers to efficient pricing. The lower activity in NPLs is also encouraging market interest in related segments, like sub-performing loans and re-performing NPLs (SPLs and RPLs). While contiguity exists between the NPLs, SPLs, and RPLs segments in the market, their very different regulatory treatment is something that may warrant further investigation in the future. Another segment that is seeing growing interest is that of secondary sales of NPLs portfolios (or parts thereof) in a drive for profits and efficiency.

In parallel, the servicing sector has grown and developed significantly over the last decade. The analysis shows that, apart from many small domestic players, the sector is showing an increasing trend towards concentration in a number of players now operating in more than one Member State. The trend towards consolidation and the development of a truly EU dimension in the servicing sector, however, appear to be limited by the fragmentation of NPL markets along national lines, in particular because of the differences in civil and insolvency laws as well as judicial proceedings. This is at the root, for instance, of the need for servicers to establish local subsidiaries to operate in other Member States. Overall, the sector seems to have performed well over the last decade in terms of profitability and resilience. However, during 2022-2023, the sector's performance was slightly weaker, partly due to the decrease of NPLs. This weakness has been particularly evident among the largest 20 players, which together account for servicing for the great majority of assets in the market. The low level of NPLs and the changed macroeconomic conditions may pose further challenges and drive more consolidation and efficiency in the servicing sector. Going forward, it will be important to continue tracking the developments, performance, and resilience of the sector.

As recorded in the responses to the survey launched by the NPL Advisory Panel in the first half of 2024, most of the players in NPL secondary markets perceive them to be working well. However, legal or other restrictions on NPL disposals (e.g., related to the transfer of ownership, transaction structure), the limited level of NPLs, and the pricing of primary market transactions are considered an impediment to the further development of the market. From this perspective, barriers to the development of NPL secondary markets vary from country to country, depending on the stock of NPL in the country and on national economic and legal specificities. Only a minority of respondents considered data availability and quality to be a serious issue. While more comprehensive data tapes and a possible data hub have been mentioned as possible solutions, more work may be needed in this domain to identify potential remedies.

On forbearance, debt collection and fees, the analysis shows a similar fragmentation along national lines. The complex web of regulatory frameworks and practices across the Member States poses a significant challenge to credit servicers who operate cross-border or who are dealing with a cross-border situation[67]. It also means that consumers in the EU are faced with a different treatment depending on their country of residence and potentially also based on the type of outstanding debt. Individuals in

[67] Such situations can occur, for instance, when(i) the borrower's place of residence does not correspond with the jurisdiction governing the loan agreement or (ii) the borrower moves to another Member State after the loan has been granted.

different countries may therefore be subject to different levels of costs and fees which can add to existing financial hardship.

Annex I

EBA Member Sate breakdown of NPL volumes and ratios

Volumes bn EUR	Non-performing loans and advances (1)		
	Sep-23	Jun-24	Sep-24
AT	11.5	14.3	14.7
BE	11.8	12.2	12.9
BG	0.9	0.8	0.8
CY	0.9	0.7	0.7
CZ	2.0	2.0	2.0
DE	34.0	41.2	42.0
DK	7.5	7.3	7.4
EE	0.3	0.3	0.3
ES	77.0	76.2	76.2
FI	5.8	6.4	6.6
FR	116.8	121.0	121.7
GR	8.3	6.6	6.8
HR	0.9	0.9	0.9
HU	3.3	3.0	2.9
IE	5.4	4.8	4.5
IS	0.4	0.6	0.6
IT	42.8	40.9	40.4
LI	0.3	0.3	0.4
LT	0.2	0.2	0.2
LU	1.9	2.3	2.4
LV	0.2	0.2	0.2
MT	0.4	0.3	0.3
NL	27.7	28.2	28.8
NO	2.7	2.6	2.6
PL	6.3	6.0	6.5
PT	5.6	5.1	5.0
RO	1.1	1.8	1.9
SE	2.1	2.7	3.0
SI	0.6	0.7	0.7
SK	1.0	1.1	1.1
EU/EEA	362.7	373.4	376.0

%	Loans and advances: NPL ratio (1)		
	Sep-23	Jun-24	Sep-24
AT	1.8%	2.2%	2.3%
BE	1.2%	1.2%	1.3%
BG	2.1%	2.0%	1.9%
CY	2.6%	2.4%	2.2%
CZ	1.1%	1.1%	1.1%
DE	1.1%	1.4%	1.4%
DK	1.3%	1.2%	1.2%
EE	0.7%	0.8%	0.8%
ES	2.8%	2.8%	2.8%
FI	1.1%	1.2%	1.2%
FR	1.9%	2.0%	2.1%
GR	4.1%	3.4%	3.3%
HR	1.8%	1.8%	1.8%
HU	3.1%	2.8%	2.7%
IE	1.8%	1.5%	1.4%
IS	1.4%	1.8%	1.8%
IT	2.4%	2.4%	2.4%
LI*	0.4%	0.4%	0.5%
LT	0.6%	0.6%	0.5%
LU	1.2%	1.7%	1.9%
LV	0.5%	0.4%	0.4%
MT	2.4%	2.1%	2.1%
NL	1.4%	1.4%	1.4%
NO	0.9%	0.9%	0.9%
PL	4.4%	3.8%	4.0%
PT	2.8%	2.4%	2.4%
RO	2.4%	2.8%	3.0%
SE	0.3%	0.3%	0.4%
SI	1.5%	1.8%	1.8%
SK	1.7%	1.8%	1.8%
EU/EEA	1.8%	1.9%	1.9%

Annex II

Country breakdown of debt collection fees

Country	Debt collection fee model for B2C	Legal fees model	Court fees	Bailiff fees	Legal representation fees
Austria	**Thresholds/ Staircase**	**Fixed fee**	Staircase model EUR 25 to EUR 7,783 per case		
Belgium	**Thresholds/ staircase**	**Other**		Fixed by law	Fixed by law upon decision in the lawsuit. Additional fees set in Servicer agreement
Bulgaria	**Other**	**Fixed/Success fees**	Regulated by law (fixed rate plus staircase %)	Regulated by law (fixed fees for enforcement and success fees over collected amount)	Minimum amount regulated by law (fixed rate plus staircase %)
Croatia	**Other**	**Fixed fee** EUR 2.65 for employment check, EUR 6.64 to EUR 663.61 for instrument activation, public notary fee from EUR 25 to EUR 660 +VAT, court fees from EUR 13.27 to EUR 1327.77 and lawyer fees from EUR 62.50 to EUR 31 250	Based on principal, also depend on number of court fees and lawyer's actions Applicable in all court procedures		Only if the party is represented by a lawyer Based on principal, also depend on number of court fees and lawyer's actions
Czechia	**Other**	**Other** Fixed rates based on amount brought before the court. Applied by the court depending on the success of the case.			

Country	Debt collection fee model for B2C	Legal fees model	Court fees	Bailiff fees	Legal representation fees
Denmark	**Thresholds/ staircase**	**Hourly rate** – based on case size and level of court proceedings			Hourly rate most common, but fixed and agreed remuneration also possible
Finland	**Thresholds/ staircase**	**Hourly rate** – agreed between client and debt collection company Court decides on legal fees based on outcome of case and proportionality			
France	**Other**	**Other** Only regulated costs are chargeable to the debtors	Court or notary stamps	Fixed by law	Not chargeable to debtors Are part of the servicing agreement
Germany	**Thresholds/ staircase**	**Other**			
Greece	**Other**	**Other** Pass-through fees paid by credit servicer and charged back to client Law allows to charge fees to end customers	Pass-through fees		
Hungary	**Other**	**Other** 1% of the balance for enforcement procedures, 3% for payment order procedures, 6% for litigation		Different percentages	Can be charged to the debtor Attorney – agreed with creditor Legal counsel – regulated by law, based on amount of debt
Italy	**Other**	**Fixed fee** Losing party covers legal costs for opposing side, but the judge can also decide to compensate costs between parties.			Predefined range of fees, success fee is not allowed

Country	Debt collection fee model for B2C	Legal fees model	Court fees	Bailiff fees	Legal representation fees
		Legal fees can be waived if case is resolved through settlement with a reduction of the outstanding principal			
Netherlands	**Other**	**Fixed fee**		Fixed	
Poland	**Other**	**Other** For electronic court proceedings, from PLN 30/EUR 7[68] to PLN 250/EUR 58, and for traditional court proceedings, a fixed fee for small debts under PLN 20 000/EUR 4,645 and 5% of the debt for amounts over PLN 20 000		Depend on actions indicated by creditor in application for execution Three types of fees for discontinuing execution proceedings	
Portugal	**Other**	**Other** From EUR 25.50 to EUR 612 If the court sides with the party enforcing its rights, that party has the right to recover legal fees. If the defaulting party opposes the legal enforcement and the court rules against them, they will be required to pay double the legal fees to indemnify the creditor. Fees regulated by law – in most cases are execution legal fees			

[68] Based on the ECB conversion rate of EUR 1 = PLN 4.3058 on 3 October 2024.

Country	Debt collection fee model for B2C	Legal fees model	Court fees	Bailiff fees	Legal representation fees
Slovakia	**Other**	**Success fees** Regulated by law Only when the servicer is represented by an attorney			
Slovenia	**Other**	**Other** All legal costs must be approved by the court and borne initially by the creditor.	Set by law based on amount of debt	Set by law based on bailiff action	
Spain	**Other**	**Other** Must be ordered by the court	Cannot exceed one third of the amount of debt claimed Intended to penalise losing parties when they could have avoided using the judicial system. Legal interest rate + 2 percentage points		
Sweden	**Fixed fee**	Hourly rate from SEK 625 to SEK 1950	Application fees as set by law, from SEK 600 to SEK 2800, depending on type of matter	Application for payment order SEK 300, enforcement of verdict SEK 600 and statutory compensation to creditor SEK 380-420 as set by law.	Reasonable costs to be indemnified by the losing party in court, in accordance with law.