

BKS position paper to the EBA-Discussion paper on the review of the NPL transaction data templates**General remarks**

The Federal Association of Loan Purchase and Servicing (Bundesvereinigung Kreditkauf und Servicing or BKS) is based in Berlin and represents the interests of its 33 member companies that are currently active throughout Germany in debt purchase and debt servicing as well as all of the biggest market participants in Germany..

By delivering the present opinion our association welcomes the objective of the current revision to make the voluntary data templates simpler, more proportionate, and more effective and make them available to all market participants.

However, BKS considers that the basic assumption upon which this initiative is based is questionable.

Comments***A. No empirical data for the positive effect of such extensive templates***

Primarily, we are missing an empirical evidence that the NPL data templates will enhance the functioning of the secondary markets in the EU because it remains unclear why standardized NPL data templates should close the spread between bid and ask prices. There is no direct connection between the scope of exchanged data and the bid-ask-spread. If sellers have a high interest in selling NPLs, they will provide the information that investors expect or demand. If sellers would intend to get better prices, they might decide to spend more effort on the scope and quality of evaluation data.

The discussion paper does not explain in sufficient detail why these data templates will increase the efficiency of NPL markets since, on the one hand, it does not give substantial explanation about the precise effect of NPL data templates on the market participants in different markets. On the other hand, there are reasons to consider that the market efficiency will suffer under these new standards which add costs and workload while they are not considered as relevant by many market participants.

B. No minimum quality guaranteed, no sanctions if not delivered

Moreover, the revision includes no provisions regarding the quality requirements and reliability of the information delivered (accurate and up to date) in the data fields. This is especially important with respect to contact and status information. And by consequence, we have noticed that there are no sanctions for missing or bad data. It remains unclear whether EBA intends to do random checks on transactions and the data tapes used in order to safeguard the compliance with the mandatory data templates standard.

C. No differentiation between PL and NPL

Furthermore, we have noticed that the differences between performing loans (PL), sub-performing loans (SPL), (secured or unsecured) NPL, or pure Real Estate Owned (REO) have not yet been covered in the templates because each field can have a different importance within the varied loan classes. As long as the discussion paper and the related data standards do not only cover NPLs our recommendation would be to split the templates into asset classes and loan classes. An additional aspect is to differentiate between original loans and second placements. It remains unclear whether the use of mandatory data templates also applies to transactions when investors are the sellers of previously acquired portfolios.

D. Too complex, most banking systems would not be able to deliver the required data

In addition, the input requirement for the templates is too complex for many of the credit institutions. Especially smaller banks will not have a system in place to provide all required data for these extensive templates. Some of the information are only available in paper form or in comment fields, as written

comments without the possibility to be read instantly in digital or automated form. Moreover, most of the banks are using different systems; so, the current EBA data templates which are not in use in Germany today would have to be adapted by most of the banks, requiring considerable time-consuming manual work to complete it.

E. Market entry barrier + increased costs

In our view, the data templates carry two risks: Firstly, it might add unnecessary costs for NPL sellers as they would have to compile more data than actually required by investors. Secondly, it might prevent new potential sellers from bringing NPL portfolios to market as they would be unable to prepare the mandatory data templates which would lead to additional market entry barriers.

It is very likely that this initiative will have severe negative effects as it adds costs and complexity to NPL transactions. Our concerns are that many sellers already struggle with the provision of data for NPL transactions and might not be able to meet the new data requirements.

To the general commentaries we would like to outline the following outstanding issues and potential problems:

- 1) The data management of banks and data availability show strong differences between European markets. The implementation of a very high standard may cause an opposite, reluctant effect for some market players which is not intended with this initiative. How will the consistency of provided data be ensured while keeping in mind the different standards in the Member States?
- 2) Preserving a high data quality depends on data input at loan origination and throughout the lifecycle of loan management. This might only be possible for newly generated loans, and it can be expected that the data quality on existing stock is somewhat poorer. It would make sense to have a transition period to allow banks to implement the required internal changes of data management. In addition, there is no provision to clarify the situation of a portfolio traded on that was acquired a long time ago when the data requirements were different (e.g., in case of real estate properties the implementation and actualization of data requires much longer time periods).
- 3) We expect that the mandatory data templates would exclude a significant share of the current NPL inventory of banks from the market. Therefore, how will a bank be able to conform with the requirements laid down in order to sell older NPL portfolios where usually only very limited data/information is available?
- 4) We would like to emphasize the impact of GDPR on the mandatory data fields requirements. GDPR follows the principle of data minimization. Many data fields are not required to evaluate a portfolio or to perform the servicing of an acquired portfolio. Therefore, investors are not allowed to store these information.
- 5) We are wondering whether banks could still sell NPL portfolios if they find investors which are willing to buy but the data tape does not meet the requirements of the mandatory data tape?
- 6) We see the risk that third party servicers will suffer as the servicers will be required to provide far more information to their clients (banks). Any servicer will be required to invest in technology to meet the new data requirements. This might increase the servicing fees for banks.
- 7) How does EBA intend to manage the situation in case of banks asking for exceptions to the mandatory data templates as they are unable to meet the data requirement and cannot carry out NPL transactions?
- 8) Is there an intention to evaluate and review the practical effects regarding process of the implementation of this initiative?

Comments to the questions are inserted in the following table.

The Federal Association of Loan Purchase and Servicing e.V.

Berlin, August 30th, 2021

Question	BKS - Remarks
1) Do you agree with the proposed data structure and the relationship between templates?	Generally, we agree with the structure, but from a practical perspective it is necessary to split into the mentioned categories: (PL, (secured/unsecured) NPL, pure REO). Also, with the observation that a counterparty could have several entries in the table (debtor, co-debtor, guarantor, attorney etc.).
2) Do you agree with the deletion of data categories 'NPL portfolio' and 'SWAP'?	Yes.
3) Do you think the suggested list of data fields capture all the relevant information on the counterparty needed for NPL valuation and financial due diligence?	<p>We think that depends. For some of the categories the fields are needed and correctly classified, but i.e., for unsecured NPL the field total asset/total liability is not necessary and most often not available, so it should not be a critical field. We recommend splitting these into categories and then decide if critical or not. For most of the information a data field (valid date) is missing, for example cut-off is 31.12.2020, but total assets/total liability information is as of 31.12.2018. This is an information which is critical because "the older the information the higher the risk".</p> <p>Date of last contact, counterparty deceased, and counterparty year of birth are critical fields and should not be deleted.</p> <p>Additionally, a distinction should be made according to whether the data field is important for the valuation or transaction. Some data fields should be aggregated or in a range i.e., year of birth, age in a range of..., historical address information, historical procedures, contact information, single bookings regarding payments and the counterparty who has made the payments, current employer information available, counterparty deceased or address validation.</p>
4) Do you think any specific data fields should be excluded from the template?	<p>We believe that the number of data fields is far too high and generally over-engineered. A 'one -fits-all' solution automatically creates over-complex solutions which do not correspond with the real data requirements for individual portfolios.</p> <p>The answer is heavily depending on whether we are talking about a PL, SPL, NPL (terminated).</p> <p>For example, for unsecured NPL /Auto NPL the need of Total Assets/Total Liability/Annual Revenue/Annual EBIT is not important.</p>
5) Do you agree that the data fields on current external and intern credit scores and current and internal credit scores at origination should be included in the template?	If they are to be included, we consider that the dates of the internal and external scoring are significant. Because those scorings cost money, external scoring can be nice to have but needs to contain information about the date and supplier of the scoring. Internal scoring only reflects a bank's view, but it is not necessarily relevant from the investor's view, so not needed. Also, an internal score does not make sense if the algorithm and the date of last calibration are unknown.
6) Do you agree that the fields on corporate's latest available financial statement amounts should be included in the template?	We agree that this is nice to have, but only for PL probably critical, and under this aspect also the date of the statement should be included. For NPL it is non-critical. It also depends on the loan type. It is not relevant for unsecured loans. It is probably harder to obtain this for NPL which often come with unfinished financial statements.

	Furthermore, if we are looking at PL or SPL and if they are expecting income statements, why this should then be limited to corporates? What about sole proprietors?
7) Do you agree that the data fields related to corporate counterparties' assets and liabilities should be included in the template?	Those fields are only necessary for PL and SME NPL and most often they are not available in banking systems, but if they are, also a date of validation needs to be stated.
8) Do you agree with the proposed template 2 of Annex I?	We consider that the mortgage amount/mortgage identifier should not be deleted from the template 2.
9) Do you agree with the inclusion of the data fields related to interest rates and other information as per contractual agreement for the valuation and financial due diligence of NPLs, especially when they are not more than 90 days past due?	We consider that a category split at this point would make sense because for PL/SPL there are more data fields required than for NPL unsecured etc. Also, we outline that in case of PL and SPL some fields are missing i.e., calculation like 30/360, periods of interest free or special agreements.
10) Do you agree with the inclusion of the data fields related to forbearance measures for the valuation and the financial due diligence of NPLs?	Yes, if available then this would be good to have, but not critical. Most important are start date and end date of forbearance. Payment schedules are also good to have, however not relevant in case of reorganization of a company.
11) Do you think that the suggested list of data fields captures all relevant information on financial instruments needed for NPL valuation and financial due diligence? If not, please indicate which other data fields should be included and provide explanation for this.	We are missing fields as follows: <ul style="list-style-type: none"> - Product type should be critical because there is a difference between Current Account/Loan/Credit Card or a mortgage shortfall. - Principal Forgiveness needs to be a critical field – because then the maximum collected principal amount can be only up to this. - Information re deceased, - Address quality and history - Historical process - Split of payments (incoming, returns, payer) - Securities, liquidation of them, acceptance (wage assignment) enforcements, attachments etc.
12) Do you think any specific data field should be excluded from the template?	No. Please consider our answer to question 4. In case of NPL none of the critical data fields (as in Figure 10) is relevant. In case of PL & SPL nothing of them can be excluded.
13) Do you agree with the data fields related to lease? Please provide a data field-specific explanation to your answer.	We outline also here that a category split would make the most sense because no lease fields are necessary for NPL unsecured and for Auto. Additionally, the reason for the outstanding amount on the lease e.g., a missing lease rate, a payment to cover a damage etc. needs to be included. We are missing some data fields i.e., put-option, residual value, asset description in detail to evaluate the market value of today and at contract end.
14) Do you think that the suggested list of data fields captures all relevant information on collateral needed for NPL valuation and financial due diligence? If not please indicate	We are missing data on last year's income of the collateral and last year's costs of the collateral. These are relevant fields. Most of the fields relate to secured collateral

<p>which other data field should be included and provide explanation for this.</p>	<p>where court location is missing. This is necessary in order to estimate a lack of rapidity in solving a case. Some courts are more effective. In addition, the number of failed auctions should be critical, to estimate if a completely new enforcement needs to be started. Completely missing is also a pure unsecured enforcement order with valid date. Furthermore, the collateral type 'Wage garnishment' is not covered. The common collateral type 'car' is almost not covered by the template. We have noticed that the focus is on real estate. There are also missing data fields related to enforcements, attachments, wage assignment which has nothing to do with real estate.</p>
<p>15) Do you think any specific data field should be excluded from the template?</p>	<p>Please see our answers to 4) and 12). We consider that if available, all the fields should be filled, but most often they won't because the data is not available. Availability of data on sellers' side is a general issue.</p>
<p>16) Do you agree with the data fields on the characteristics of non-property?</p>	<p>We are missing fields as e.g., the age of the non-property collateral (like age of car and the value of a life insurance) and date of the value. The common collateral type 'car' is almost not covered by the template.</p>
<p>17) Do you agree with the data fields related to the enforcement and collateral?</p>	<p>If enforcement order is considered as non-property collateral the date of the enforcement is missing. Please see also our answers to questions 14 and 16.</p>
<p>18) Do you agree with the proposed template 5 of Annex I for NPL valuation and financial due diligence?</p>	<p>On a practical note, the payment schedule most often will not be delivered in this form, but rather payment, date of payment, booking distribution in a row will be delivered. We are missing a certain structure – more on a granular level and transparent – as well as the following data fields:</p> <ul style="list-style-type: none"> - Date of transfer of claim to external collection agency - Date of payment after termination (single payment) - Amount of payment after termination (single payment) - Type of repayment agreement (e.g., installment plan, settlement out-of-court, debt settlement plan) - Settlement, amount of settlement - Debtor tracing activities in the collection phase conducted - Summary of the delivered payments - The cash source/reason for the payments (collateral, insolvency, guarantor etc.).
<p>19) Do you agree with the description of data fields presented in data dictionary?</p>	<p>No input.</p>
<p>20) Do you agree with the criticality (and non-criticality) of data fields presented in data dictionary?</p>	<p>We consider that the same critical fields as for unsecured should be applied for Auto. Also, country of residence should be critical – some debts are not allowed to be purchased like Iran, Somalia etc.</p>

	<p>In addition, principal forgiveness needs to be critical because it influences the value of the debt. As well as the number of failed auctions because it influences mainly the costs.</p> <p>Furthermore, for private individuals the following data fields should be considered as critical:</p> <ul style="list-style-type: none"> - Postcode of residence - Proof of claim filed by seller (1.54) - Securitized (3.49) - Start date of lease (3.62) - Enforcement status (4.34) - Enforcement description (4.50) - Deceased is deleted - Date of birth - Place of birth - Address and activity history (completely missing).
<p>21) Do you agree with the confidentiality aspects of data fields?</p>	<p>We consider that the address of property, property postcode, court identifier should be categorized as non-confidential at least regarding secured NPL. Also, postcode of residence should be categorized as non-confidential re NPL unsecured and Auto because of the cluster/bulk risk of debtors.</p>
<p>22) Do you agree with excluding no data options for data fields?</p>	<p>It is our understanding that relating to No. 56 the seller should get the option in “no data”. Positive to give all institutions independence on their capability the option to take part of auctions etc.</p>
<p>23) Please provide your views on how proportionality considerations regarding the size of the exposures or portfolios being sold should be incorporated in the implementation of NPL data templates.</p>	<p>In our view, this would keep flexibility and room for discussion. Some banks will probably split the portfolios to not use the templates to save additional work and time. Nevertheless, some banks will not be able to fill their input fields due to their used operating system and the availability of the data: this could imply that the templates need to be filled in manually.</p> <p>Herewith some proposals from our site to use for Categories:</p> <ul style="list-style-type: none"> - PL (all asset classes) no size minimum - NPL (RRE, CRE, SME/Corporate, Specialized) >100m€ principal - REO >100m€ asset value - Free to use for all others. <p>This could guarantee standard information for big deals, gives comfort for the big investors and the size of the transactions gives enough revenue that the pre-work from the banks takes this into account.</p> <p>Furthermore, we consider that critical fields should represent a minimum set of core data that applies for all transactions regardless of the value and complexity of the NPL transaction. Several non-critical fields can become critical when a transaction exceeds certain complexity and threshold values. In general, many banks will struggle fulfilling the data requirements as they are often missing the input data in their systems.</p>

	We would like to point out that PL vs. SPL vs. NPL require different information and details.
24) Should there be a threshold (e.g. in monetary terms) for the application of the proportionality principle? If yes, then how should this be defined?	We consider that thresholds should be defined with respect to complexity and values. RRE and CRE have a completely different level of complexity than unsecured portfolios. For unsecured portfolios only critical fields should be relevant.
25) Do you agree that the proposed approach takes into account, in an adequate way, the proportionality principle? If not, which additional elements should be considered?	Please see above our answers to questions 23 and 24.
26) Please provide your views in the asset classes covered and whether any specific data fields other than already foreseen, should be included in the templates to ensure full coverage of certain asset classes.	In our view, the proposed asset classes should be divided in categories of PL, (secured or unsecured) NPL and REO in order to provide more transparency and to organize the templates in such a manner to fit better to their category and asset class. This will facilitate the use of the data templates by the sellers and will permit a proper completion of the data fields, by avoiding numerous "n.a." specifications. In addition, the asset classes should be provided in detail: overdrafts, credit cards, loans, car loans, other financed assets (holiday, kitchen etc.)
27) In your view, is the structure and coverage of the template adequate for both portfolio transactions and transactions where an individual exposure is traded? Please explain your answer.	No input.
28) Please add any additional comments, remarks or observations you may wish to include in your feedback to the discussion paper.	Please see our general remarks. Furthermore, we suggest that it would be a good option to use at first such templates for mortgage loans as NPL, in a second round for SPL and PL, in a third round car financing loans and comparable financial products and at last all other financial assets.