



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Danièle NOUY

Chair of the Supervisory Board

COURTESY TRANSLATION

Mr Nikolaos Chountis
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 11 June 2018

Re: Your letter (QZ-036)

Honourable Member of the European Parliament, dear Mr Chountis,

Thank you for your letter to Mr Mario Draghi, President of the European Central Bank (ECB), which was passed on by Mr Roberto Gualtieri, Chair of the European Parliament's Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 24 April 2018. In your letter you raised questions relating to forbearance options proposed by Greek banks. As this topic is related to the ECB's supervisory tasks, the President forwarded your letter to me.

As you know, non-performing loans (NPLs) pose a major problem for banks' solvency, profitability and resources, while undermining the trust that markets and investors have in them. It is therefore of vital importance that the banks concerned resolve their NPL issues in a timely manner, in order to be able to revive their lending activities and regain investors' trust.

To address this matter, the ECB published its *Guidance to banks on non-performing loans* (the Guidance) in March 2017¹, setting out how banks are expected to deal with NPLs. The Guidance aims to establish a consistent, best-practice approach to managing NPLs in individual banks across the euro area. The Guidance should help banks to significantly and progressively reduce high levels of NPLs.

Following the publication of the Guidance in March 2017, the ECB asked significant institutions with high NPL ratios to submit strategies for addressing their NPL issues and to define medium-term portfolio-level reduction targets. In the case of the Greek banks, such strategies and reduction targets had already been under development since 2016, as their formulation was part of the conditionality of the Third Memorandum of Understanding of the current ESM Programme². Greek banks are implementing strategies to reduce their NPL levels by the end of 2019, based on a number of available instruments, including, but not limited to: forbearance measures; active reduction actions (loan sales and write-offs); foreclosure; out-of-court

¹ https://www.bankingsupervision.europa.eu/ecb/pub/pdf/guidance_on_npl.en.pdf

² https://ec.europa.eu/info/sites/info/files/01_mou_20150811_en1.pdf

solutions; and insolvency proceedings. Chapter 2 of the Guidance outlines best practices for the formulation of NPL reduction strategies and provides examples of tools available for implementing such strategies. Such tools are not mutually exclusive. On the contrary, banks should ensure that they use whichever combination of the various strategies/options available is best suited to achieving the envisaged objectives, taking into consideration their own specificities as well as the market in which they operate.

Further, as referred to in the Guidance, *“legal and judicial frameworks influence the banks’ NPL strategy and their ability to reduce NPLs”*. Put differently, solving NPL issues depends to a certain extent on national legal frameworks and the constraints thereof. More specifically, in Greece, several legislative measures have been adopted to address long-standing legal impediments that restrained banks’ efforts to deal with the NPL problem.

In this regard, an important aspect of the successful implementation of banks’ NPL reduction strategies, as also described in Annex 5 of the Guidance, is the communication with the borrower during the recovery process, which is also expected to be compliant with the respective national legal framework. Such a framework, namely the *Code of Conduct*³ (the Code), has been in place since 2014 in Greece. It was revised in 2016 with the aim of further improving its effectiveness for all stakeholders⁴. The Code lays down general principles for proper conduct in the exchange of information between borrowers and credit institutions.

While specific feedback cannot be provided on individual cases, the Joint Supervisory Teams monitor the implementation of Greek banks’ NPL reduction strategies from a prudential perspective on an ongoing basis, including the communication efforts made in compliance with the Code.

Please note that in case you would like to receive further clarifications in relation to the protection of consumers or the enforcement of the Code, these issues fall outside of the scope of the ECB’s supervisory tasks and the Bank of Greece would therefore be the relevant addressee for your questions.

Yours sincerely,

[signed]

Danièle Nouy

³ Code of Conduct under Law 4224/2013.

⁴ Law 4224/2013 (Government Gazette under number 288A/31.12.2013)
<https://www.bankofgreece.gr/Pages/en/Supervision/nonperformexposures/CodeCond.aspx>