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EBA Regular Use

Report on the fact finding exercise on creditworthiness assessment practices of non-bank lenders

Executive Summary

1. In fulfilment of its statutory task to monitor consumer trends, the European Banking Authority (EBA) publishes a Consumer Trends Report (CTR) on a biennial basis. The last edition of the CTR identified, among other trends, the persistent increase in over-indebtedness and arrears of borrowers across the European Union (EU) to the detriment of consumers, with inadequate creditworthiness assessment (CWA) practices by non-bank lenders (NBLs) emerging as a potential contributory factor in this trend. The EBA therefore carried out an analysis into the CWA practices of NBLs, with a view to assessing whether these might be inadequate and a possible contributing factor in this trend.
2. Through a fact finding exercise with national competent authorities (NCAs) and with a sample of 125 NBLs chosen by NCAs from across the EU, and using the reference period between 2020 and 2023, the EBA took stock of the national regulatory frameworks that apply to NBLs in each Member State (MS), gathered information on the approaches used by NCAs to supervise NBLs and their CWA practices, and analysed the types of loans offered by NBLs as well as their organisational set-up.
3. This report summarises the EBA's key findings from the exercise, with a view to bringing about more insight into the CWA practices of NBLs, on which potential legislative, regulatory and/or supervisory action can also be drawn in the future.
4. The EBA finds that, while some NBLs might service segments of the population that may have limited opportunities to access traditional banks for credit, a significant number of the surveyed NBLs appear to apply inadequate practices for information gathering and verification during their CWAs. The recent revision of the Consumer Credit Directive (revised CCD), which will apply

from November 2026, sets out clearer and more stringent CWA requirements and is therefore expected to address this issue at least for consumer credit.¹

5. The report also finds that the lack of a harmonised definition of non-bank lenders and of a regulatory framework for authorisation at EU level may result in the different types of NBLs being supervised in different ways across EU Member States. Consequently, different rules might apply across Member States to entities of a similar kind. In this regard, the revised CCD adopted in 2023 has introduced rules for the admission, registration and supervision of creditors and credit intermediaries that are non-credit institutions and non-payment institutions, as well as rules on the obligation to assess the creditworthiness of the consumer, which are expected to address these issues.
6. Lastly, while many NCAs have taken supervisory action with regard to NBLs under their remit, the surge in the number and significance of these entities creates a need for an increase in specialised resources dedicated to monitoring non-bank lending activities. In this regard, the fact finding exercise indicates that NBLs' lending activities grew significantly almost in all EU Member States during the reporting period 2020-2023, with the number of NBLs providing credit products under the CCD considerably higher than the number of NBLs providing mortgage credit under the Mortgage Credit Directive (MCD). In particular with regard to CCD credit, NBLs reported an overall stable trend between 2020 and 2023, with 34% of the credit requests being granted in 2020, which increased to 43% in 2021, and dropped to 38% in 2022 and 37% in 2023. In contrast, MCD credit experienced a decreasing trend, starting with 58% of the credit requests being granted in 2020, with a peak of 75% in 2021, which then dropped down to 49% in 2022 and even lower in 2023 at 45%.
7. In terms of next steps, the EBA will continue monitoring the activities of NBLs through its biennial CTR and may consider, depending on the findings, initiating new ad hoc action should there be the need in order to foster further protection of EU consumers.

Background

8. One of the mandates conferred on the EBA is to collect, analyse and report on consumer trends, as laid down in Article 9(1) of the EBA founding Regulation.² Since 2013, the EBA has delivered on this mandate by regularly publishing its CTR, which not only reports on those trends but also identifies topical issues that arise or have arisen for EU consumers. The topical issues then form the basis for the EBA's priorities in terms of consumer protection for the following two years.
9. The last edition of the CTR was published in April 2023³ and identified as one of its topical issues 'over-indebtedness and arrears', with findings indicating that NBLs play a significant role in

¹ [Directive \(EU\) 2023/2225 of the European Parliament and of the Council of 18 October 2023 on credit agreements for consumers and repealing Directive 2008/48/EC, OJ L, 2023/2225, 30.10.2023](#)

² [Regulation \(EU\) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority \(European Banking Authority\), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC](#)

³ [Consumer Trends Report 2022-2023.pdf \(europa.eu\)](#)

contributing to this recurrent issue. This is a finding that the EBA had already acknowledged in the preceding year in its response to the Commission's Call for Advice on the review of the MCD⁴.

10. The EBA therefore carried out a fact finding exercise between 2023 and 2024 into NBLs and their creditworthiness assessment practices, with a view to gathering more insight on the practices that non-bank lenders put in place when carrying out their creditworthiness assessment of prospective borrowers and to gauging the scale and nature of this (recurrent) topical issue.
11. Creditworthiness assessment requirements are set out in Article 8 of the Consumer Credit Directive of 2008 (CCD)⁵, Article 18 of the MCD⁶ and relevant provisions on consumer creditworthiness assessments set out in Section 5 of the EBA Guidelines on loan origination and monitoring (EBA LOGL)⁷. With the adoption in 2023 of the revised CCD, strengthened rules on creditors' obligation to assess the creditworthiness of the consumer have been introduced and will become applicable starting from November 2026 for consumer credit products.
12. The fact finding exercise consisted of a two-step approach with two distinct and consecutive surveys sent respectively to NCAs and NBLs, each requesting information covering the time period between 2020 and 2023. The survey sent to NCAs aimed at gathering information from each EU country in terms of the national legal and regulatory framework applicable to NBLs, trends in national markets, and supervisory approaches of NCAs. The EBA received responses from 25 jurisdictions to this survey.
13. The second survey was addressed to a sample of NBLs falling within the working description of the exercise and selected by each NCA, which had a medium to high lending volume in the respective jurisdiction but were otherwise not necessarily representative of the overall market of NBLs operating in the EU. The EBA received NBLs' responses from 23 EU Member States. The objective of this second survey was to gather information on NBLs' practices in their creditworthiness assessments.
14. The scope of the term 'non-bank lenders' used for the purpose of selecting NBLs for the second survey covered any lender that is authorised/registered at national level, that may grant credit under the CCD and/or MCD, and that is not authorised as a credit institution under the Capital

⁴ [EBA's response to the EC Call for Advice on the review of MCD.pdf \(europa.eu\)](#), paragraph 72.

⁵ Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on credit agreements for consumers and repealing Council Directive 87/102/EEC, OJ L 133, 22.5.2008, p. 66-92, available here <https://eur-lex.europa.eu/eli/dir/2008/48/oj>

⁶ Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No 1093/2010, OJ L 60, 28.2.2014, p. 34-85, available here <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32014L0017>

⁷ The EBA LOGL incorporate the preceding Guidelines on creditworthiness assessments under the MCD that the EBA issued in 2015. They apply to creditors under the CCD and MCD and, among other things, provide guidelines about the information and data creditors gather to carry out creditworthiness assessments and on the methodologies to apply. See: <https://www.eba.europa.eu/publications-and-media/press-releases/eba-seeks-future-proof-loan-origination-standards-taking>

Requirements Directive (CRD) / Capital Requirements Regulation (CRR). Entities that did fall into this description but were part of a banking group through consolidated supervision were also in the scope of the exercise.

15. Having assessed the input received, the EBA has arrived at a number of findings, a summary of which is presented in this report, with a view to publishing observations on which potential legislative, regulatory and/or supervisory action can also be drawn in the future. The report starts with the regulatory and legal framework applicable to creditworthiness assessments of non-bank lenders across the EU, which is followed by an overview of the supervisory approaches that NCAs apply in monitoring these entities and their creditworthiness assessment practices, and continues with a summary of responses received from the sample NBLs on loans offered and their organisational set-ups. The final heading of this report provides some high-level conclusions.

Legal and regulatory framework

16. The assessment of the NCAs' survey responses shows that there is currently no harmonised definition across EU Member States of 'non-bank lenders', including differences in identification of NBLs based either on an 'entity-based' or an 'activity-based' definition. By way of example, in one jurisdiction NBLs are considered to include some banks that are subject to the CRR, and other entities that are granted a general 'business licence', which can also provide credit within the meaning of the CCD and/or MCD.

17. In another jurisdiction NBLs include professionals engaging in the business of granting loans to the public that are subject to a licence from the NCA to operate as a 'specialised professional of the financial sector' in accordance with national legislation. In yet another country, lending activities are not legally limited to any specific category of institution and can be carried out by individuals and companies that are not authorised or supervised by the NCA. However, undertakings engaged in lending activities as a regular occupation or business activity may opt to be licensed as a specialised lending institution under a specific national regime. Finally, in another country, in addition to financial institutions, there are also non-bank lenders that are not financial institutions and are licensed by the ministry of finance.

18. NBLs offer a wide range of financial services in EU Member States, have different business models and are subject to different national regulatory frameworks. The surveyed NCAs reported consumer credit providers as being the most common type of NBLs at national level (nominated by 11 NCAs), followed by leasing companies (9), mortgage credit providers (8) and, less prominently, factoring companies (3), pawn shops (3), and collection agencies, finance companies and services companies (1).

19. Most jurisdictions indicated that NBLs are required to go through the same scrutiny as any other licensed entities providing credit products in order to be authorised. However, there is significant variety within the national regulatory requirements applied to NBLs in EU Member States, including the application of ad hoc authorisation rules for these types of entities to carry

out creditworthiness assessments. For example, the surveyed NCAs reported a wide range of approaches to defining the regulatory perimeter for NBLs, including licensing, authorising or registration requirements, which may apply to only a specific lending activity, with full or partial application of conduct / consumer protection rules.

20. As mentioned in the paragraph above, some NCAs indicated that specific and detailed rules on NBLs' creditworthiness assessments are applied, which include an assessment of the requirements on responsible lending, with one country mentioning specific macroprudential mortgage measures which aim to ensure sustainable lending standards in the mortgage market. With regard to reporting requirements, most NBLs have to abide by general reporting obligations towards their NCAs, either on a quarterly, biannual or annual basis. Only a small number of countries impose reporting rules that are specifically addressed to NBLs.
21. In terms of supervisory responsibilities, most NCAs that are member authorities of the EBA are also responsible for the authorisation and supervision of NBLs and their creditworthiness assessment practices, although in some instances more than one NCA within the same jurisdiction is responsible for NBLs, and some national regulation applies only to some types of NBLs.
22. In terms of enforcement, most NCAs indicated that, in respect of NBLs under their supervisory remit, they can avail themselves of several enforcement powers, such as the suspension of the licence, investigations and issuance of penalties. Only in a small number of instances did NCAs report having limited powers. By way of example, in one jurisdiction it is courts that are tasked with the enforcement of the CCD and MCD provisions on creditworthiness assessment, while in another case the competence of the NCA is limited to the MCD but not the CCD. In a third case the NCA's enforcement powers are limited to certain types of NBLs, covering only certain lending institutions, payment institutions and e-money-institutions providing credit under the CCD and the MCD, while other consumer protection authorities, at times regional, are responsible for supervising compliance of the NBLs that fall outside the remit of the NCA.

Supervisory approaches

23. NCAs' organisational set-up and powers for overseeing NBLs vary across EU Member States, possibly in line with the market size and growth of these entities in a given jurisdiction. Most NCAs reported the conduct / consumer protection unit/department as the responsible area to supervise these entities and their practices, with a small number of others reporting ad hoc teams that are set up and tasked with monitoring NBLs. All surveyed NCAs highlighted cooperation and exchange of information between prudential and conduct departments as a common modus operandi.
24. Several NCAs indicated that they have exchanged information and cooperated on the topic of creditworthiness assessment with other authorities/bodies, mostly as a result of shared supervisory remits on this matter or the set-up of the respective national legal and regulatory framework.

25. In terms of supervisory tools used to oversee NBLs and their CWA practices, several NCAs reported making use of the full spectrum of activities, with thematic reviews and on-site inspections being listed as the ones most often utilised, as well as mystery shopping, where possible. Relatedly, a few NCAs reported specific action taken with regard to NBLs and their creditworthiness assessments, such as 101 on-site inspections conducted in 2022 with a retail conduct focus, including NBLs, and the submission to all lenders (banks and NBLs) of an annual questionnaire which, inter alia, included specific questions about service provision and compliance with the principle of responsible lending.
26. A small number of countries expressly pointed to the need to enhance the resources and to amend the rules dedicated to overseeing NBLs and their creditworthiness assessment practices. Reasons for these requested enhancements are several, i.e. (i) specific developments in their respective national market, (ii) a projected intensification of on-site inspections and compliance monitoring efforts, (iii) a pending implementation of a system of administrative fines and procedures, (iv) extending the time limit for dealing with misdemeanour proceedings, and (v) smoothing of the instigation of legal proceedings. In turn, a few NCAs already started increasing their resources to supervise NBLs and their creditworthiness assessment practices during 2023-2024 and dedicated staff to a new unit which will focus on this matter.
27. A few NCAs indicated that they see obstacles and shortcomings in their supervisory activities to tackle the issues arising from NBLs and their creditworthiness assessments. In particular, one country shared findings arising from an audit carried out by the national audit office on the topic of responsible lending and consumer protection in the case of consumer loans from non-bank credit providers. Results indicated that the applicable regulatory framework and available supervisory tools are in some instances insufficient to tackle the problem.
28. Finally, one surveyed country highlighted the more general risks arising from the increasing use of artificial intelligence (AI) and machine learning techniques as well as non-financial data (like social-network and internet-navigation-related data) for performing the creditworthiness assessment and challenges for the supervisory capacity and knowledge especially with respect to non-bank lenders.
29. Turning to the identification of conduct failures in their respective national markets, a few NCAs investigated the extent to which poor creditworthiness assessments by NBLs are a driver of arrears and/or over-indebtedness, and another few reported that investigations on the integrity and the soundness of the loan origination process help in gathering evidence on the circumstances leading to arrears and/or over-indebtedness.
30. Finally, and most importantly, between 2020 and 2023 most surveyed NCAs identified actual or potential conduct failure in NBLs' creditworthiness assessment practices, as summarised in the table below.⁸

⁸ One of the surveyed NCAs also responded that the conduct failures reported in creditworthiness assessment practices are not exclusive to NBLs.

Table 1. Responses of NCAs identifying main conduct failures of NBLs in their CWA practices

Type of conduct failure	No. of countries
Shortcoming in verification of the information gathered (Article 20 of the MCD, Section 5 of the EBA LOGL)	10
Shortcoming in information request (Article 8(1) of the CCD, Article 18(1) of the MCD, Section 5 of the EBA LOGL)	7
Failure to consult register of consumer credit or credit register	4
Incomplete/incorrect NBL governance approval and control procedures	2
Copies of documents proving the consumer's income or expenses are not retained by a provider	2
Using incorrect (income and expenditure) data to calculate ratios	2
Allowing deviations from own procedures and not providing sufficient justification for them	2

31. To complement the above-mentioned main conduct failures, NCAs have reported other shortcomings identified in NBLs' CWA practices, i.e. irregularities in information disclosure to consumers following the CWA, failure to comply with the obligation to reassess the CWA of revolving credit borrowers, inadequate use of AI systems and lack of CWA-focused training for staff.

Loans offered by NBLs and their organisational set-up

32. NBLs' lending activities grew significantly during the reporting period 2020-2023, although this trend has been noticeable in some Member States more than in others. Furthermore, all surveyed NCAs, with the exception of one, reported that the number of NBLs providing credit products under the CCD is considerably higher than the number of NBLs providing mortgage credit under the MCD. Based on the responses received, this trend appears to be well established in certain Member States of northern Europe. More specifically, of the 125 NBLs surveyed, 95 provided only consumer credit under the CCD, 19 provided only mortgage credit under the MCD, while another 11 provided both.

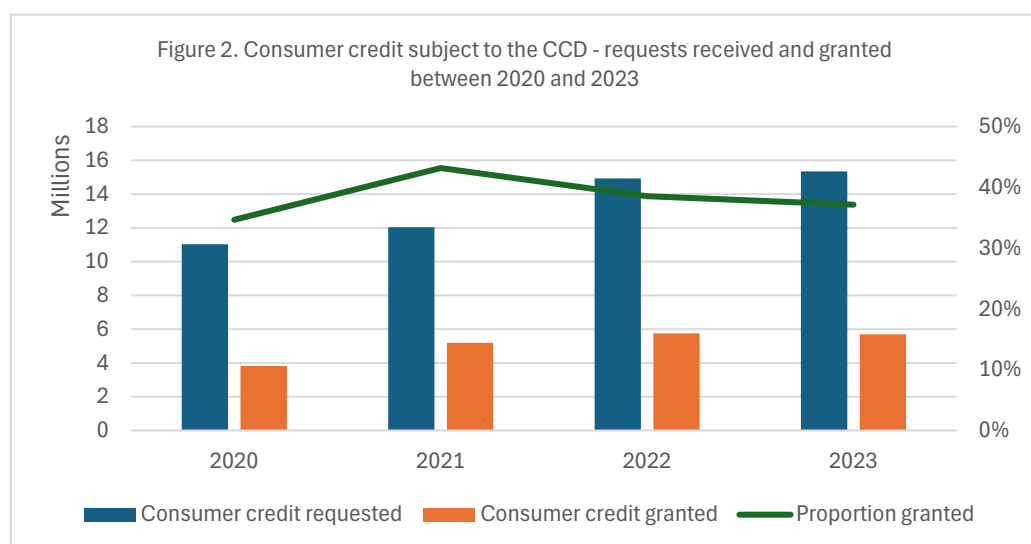
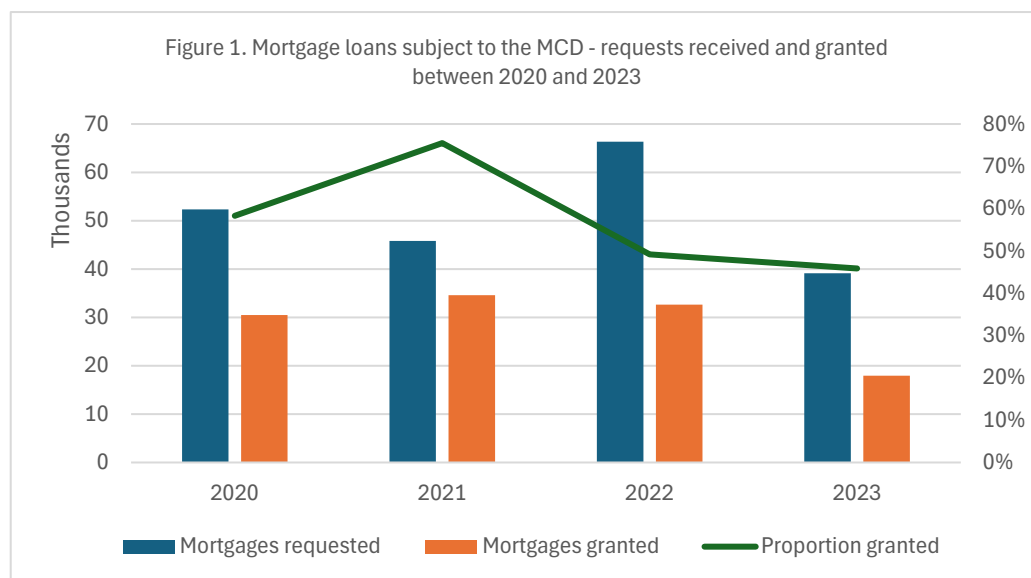
33. To better understand the magnitude of the lending activity of NBLs in scope of the exercise, the EBA requested market data from NCAs and NBLs, a summary of which is provided below.

34. A few NCAs shared precise data on NBLs' lending activities (volume of lending granted and/or evolution of the arrears for credit products issued), as only a limited number of these entities would fall under the authorities' full supervisory remit. In turn, almost all surveyed NBLs provided precise data for their lending activities, as the paragraphs and graphs below show.

35. In particular, according to the data provided by NBLs, in terms of total numbers for CCD products and based on 95 respondents, between 2020 and 2023 NBLs granted 38% of the credit products for which they had received a request (Figure 2). With regard to MCD products, based on 19

survey respondents, 51% of the requests received were then successfully concluded into a contract (Figure 1).

36. Further to the above, and with regard to CCD credit (Figure 2), NBLs reported a stable trend overall between 2020 and 2023, with 34% of the credit requests being granted in 2020, which increased to 43% in 2021, and dropped to 38% in 2022 and 37% in 2023. In contrast, MCD credit (Figure 1) experienced a decreasing trend, starting with 58% of the credit requests being granted in 2020, with a peak of 75% in 2021, then dropping down to 49% in 2022 and even lower in 2023 at 45%.



37. Finally, as per Figures 1 and 2 above, overall NBLs reported a positive trend with regard to CCD credit granted between 2020 and 2023, while for MCD credit this is the opposite.

38. With regard to the organisational set-up of NBLs, despite the significant growth in loan applications and credit granting that most of the respondents reported between 2020 and 2023,

in most cases the number of staff assigned to creditworthiness assessments seems not to have increased accordingly. However, the survey responses did not establish to what extent automated and/or AI systems were used during first screenings.

39. Furthermore, a significant number of NBLs indicated that staff are trained via 'on-the-job training' rather than a separate and dedicated induction, which may raise questions as to the extent to which staff can be considered to be adequately prepared to assess the creditworthiness of prospective borrowers.
40. The responses provided by NBLs also indicate that in some cases these entities request information that might not be sufficient to assess the repayment capacity of the borrower and sustainability of the debt.
41. Similarly, NBLs' verification of the information gathered seems to be insufficiently executed, as responses from the surveys of NCAs and NBLs indicate. A significant number of the surveyed NBLs use only one source of proof, either from the same borrower or from third parties (payslips, bank statements, calls to the customers, or consultation of governmental databases). These practices seem insufficient to perform the necessary checks and reasonable enquiries requested in Section 5 of the EBA LOGL for creditors to verify the accuracy of the information gathered and ultimately the sustainability of the resultant financial commitment.
42. Finally, in terms of corporate governance and internal controls, the surveyed NBLs provided information about the responsibilities allocated to various organisational units, the number of persons involved in the decision-making process, and the different layers of controls applied, all of which vary according to the size of the business and products offered. Almost all 125 NBLs surveyed provide manuals/policies to their staff on the company's procedure that explain how to carry out creditworthiness assessments.

Conclusions

43. A thorough assessment of the creditworthiness of prospective borrowers avoids mis-selling of credit products to consumers who do not have the required repayment capacity. For creditworthiness assessments to be effective, and to be compliant with applicable requirements in the MCD (Article 18), the CCD (Article 8) and Section 5 of the EBA LOGL, creditors have an obligation to assess the consumer's repayment capacity based on sufficient, accurate and up-to-date data. Creditors should obtain the necessary information either from consumers and/or from third parties, in a way that is compliant with the relevant provisions. Verification of the accuracy and reliability of the information gathered is also a requirement creditors should abide with prior to concluding any credit agreement as per rules embedded in Section 5 of the EBA LOGL, applicable to both CCD and MCD credit products, and Article 20 of the MCD for mortgages.
44. While some NBLs might service segments of the population that may have limited opportunities to access traditional banks for credit, this fact finding exercise has identified a number of issues.

- Lack of a harmonised definition of non-bank lenders and of a regulatory framework for authorisation at EU level: while EU Level 1 legislation clearly sets out a product-based regulatory framework that applies to financial institutions providing credit under the MCD and CCD, the lack of a harmonised definition of non-bank lenders and of a regulatory framework for authorisation at EU level results in different types of NBLs being supervised in different ways across EU Member States. Consequently, different rules might apply across Member States to entities of a similar kind. However, the revised CCD, which will apply from November 2026, and the strengthened creditworthiness requirements contained therein as well as other regulatory rules for admission, registration and supervision of non-bank lenders, are expected to address this level playing field concern.
- Different supervisory remit of NCAs: while several of the surveyed NCAs have full responsibility for monitoring NBL activities, in some cases competence on NBLs is shared among national authorities and/or sometimes is limited to one specific product, or to a segment of the supervision cycle. Ultimately, the different supervisory remit of NCAs applicable in EU Member States may also result in different rules and requirements being applied across Member States to entities of a similar kind.
- NCAs' resources for monitoring NBLs: some surveyed NCAs raised concerns about the adequacy of the current (national) legal and regulatory framework applicable in their own jurisdictions for effectively monitoring the rapidly growing market and ever increasing number of players registered in their countries. A small number of other NCAs recognised the imminent need to augment the resources (human and technological) dedicated to monitoring NBLs, and their creditworthiness assessment practices, in view of a surge in the number and significance of these entities.
- Supervisory action of NCAs: several surveyed NCAs have already taken action to assess compliance by NBLs with applicable requirements and the contributory role these entities may have in over-indebtedness and arrears for consumers.
- Significant growth of NBLs' lending activities: during the reporting period 2020-2023, the lending activities of most of the surveyed NBLs grew significantly, with the number of NBLs providing credit products under the CCD considerably higher than the number of NBLs providing mortgage credit under the MCD. In particular with regard to CCD credit, NBLs reported a stable trend overall between 2020 and 2023, with 34% of the credit requests being granted in 2020, increasing to 43% in 2021, then dropping to 38% in 2022 and 37% in 2023. In contrast, MCD credit experienced a decreasing trend, starting with 58% of the credit requests being granted in 2020, with a peak of 75% in 2021, then dropping down to 49% in 2022 and even lower in 2023 at 45%.
- Poor information gathering and verification by NBLs: the results of the fact finding exercise suggest that a significant number of surveyed NBLs might apply inadequate practices for information gathering and verification. Poor CWA practices might contribute to exacerbating the risk of (over-)indebtedness of consumers, as lenders do not properly verify the accuracy

and reliability of the data and information gathered. The recent revision of the CCD, which will apply from November 2026, sets out clearer and more stringent CWA requirements and is therefore expected to address these issues at least for consumer credit.

45. In terms of next steps, the EBA will continue monitoring the activities of NBLs through its biennial CTR and may consider, depending on the findings, initiating new ad hoc action should there be the need in order to foster further protection of EU consumers.