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B2HOLDING RESPONSE

to the EBA CONSULTATION PAPER on "DRAFT IMPLEMENTING TECHNICAL STANDARDS" from 16 May 2022 regarding NPL Transactions Data Templates

AUGUST 2022

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B2HOLDING

B2Holding ASA is a Norwegian public limited company with its registered business address and headquarters in Oslo, Norway, and is listed on the Oslo Stock Exchange (Oslo Børs).

B2Holding ASA is the parent company of the B2Holding consolidated group of companies, which contains full operations in 21 European countries and offices in two additional countries. B2Holding Group is currently present in Bosnia and Herzegovina, Czech Republic, Croatia, Cyprus, Denmark, Estonia, Finland, France, Greece, Hungary, Italy, Latvia, Lithuania, Montenegro, Norway, Poland, Romania, Serbia, Slovenia, Spain, Sweden, and has an investment office in Luxembourg. B2Holding Group has around 2400 employees throughout Europe.

B2Holding was established in its current form in November 2011 and has a strong Nordic signature. It is a debt solution provider within unsecured and secured loan markets, consisting of consumer credits, residential credits, and credits to small and medium-sized enterprise as well as corporate customers.

In addition, the B2Holding Group provides services for third-party debt collection, credit information and project management as a full-service provider of debt management and servicing for co-investors, financial partners, and customers.

INTRODUCTION

Given the strong presence of debt sell-side entities to EBA surveys and discussion rounds, B2Holding, as a debt purchaser, weighed in to the EBA Discussion Paper on the review of the NPL transaction data templates from August last year from a buy-side perspective.

B2Holding did so in part because we are of the opinion that NPL transaction data templates are certainly important and beneficial to the industry, and on the other hand because a nuanced view that also considers buy-side concerns should be highlighted in the context where the NPL transaction data templates become mandatory.

We furthermore noticed that some of the points we – or collectively the larger NPL buy-side industry - raised in the previous discussion paper were taken into account and reflected in the subsequent templates.

Notwithstanding the fact that a considerable number of our prior comments have been considered – which we are pleased to note - we are proposing some additional fields in Template 1, Template 3 and Template 4 respectively. Each of the respective data fields have been added in the dedicated columns of the data glossary, as well as our detailed comments on individual fields.

We would furthermore like to highlight concerning Template 3 that there appears to be some incompatibility between some of the fields proposed and the Directive (EU) 2021/2167. A similar comment would apply to the type of forbearance and those fields pertaining to arrears management and the (non) alignment with the NPL Directive. We have further detailed this in the responses below.

You will notice that we strongly disagree with the changes made to Template 5, and we feel quite disappointed that historical collections are being limited to the previous 2 years pre-cut off date aggregated to annual basis and only considers collections from external parties (more focus being given to future payment plans). This is arguably quite contradictory to what we see in the current market practice.

One of our main concerns, however, remains the differentiation between mandatory/non-mandatory fields based on the size of the claim balance. In response to the EBA's Discussion Paper of last year, we already took the view that in our opinion the size of a portfolio should not or only minimally impact the need for information and we remain of the same opinion in respect of threshold based on size of balance.

A threshold would in that respect merely add additional complexity and potential costs to both sellers and buyers. Not only in terms of adapting separate models for the different populations, but also in terms of increase time spent on due diligence, data validation, and reconciliation. We believe that in the creditor's systems, data is either available or not available. And separating which tranches of that data should or should not mandatorily be shared on the basis of loan balance size will in our opinion create additional information asymmetries add more complexity and likely increase costs to both parties. It might furthermore act as a barrier to both buyers and sellers from participating in certain sales processes and thus affect portfolios coming to market.

We believe this is neither in alignment with spirit of the NPL Directive, nor in alignment with established market practice, nor to the betterment of a harmonized and efficient secondary NPL market.

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As an organization, we do believe that the initiative to implement ITS and the NPL data templates into the industry is extremely important, we see significant progress from last year, and we are very supportive of this initiative. Nevertheless, the NPL data templates need to be fit for purpose to ensure a well-functioning and effective NPL secondary market, and therefore are proposing additional changes and considerations to reduce information asymmetry, facilitate the buyer to conduct accurate pricing of loans and portfolios and fulfil its obligations under the relevant legislations.

Please find our detailed responses to the EBA consultation paper here below.

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RESPONSES

In response to the EBA Discussion on the Review of the NPL transaction data templates, dated 16 May 2022, B2Holding would like to submit the following responses:

1. Do the respondents agree that these draft ITS fit for the purpose of the underlying directive?
We agree that these draft ITS generally fit for the purpose of the underlying directive once proposed changes are taken into consideration and reflected on the final data templates implemented.
2. What are the respondents' views on the content of Template 1? Please provide any specific comment you may have on the data fields in the dedicated columns of the data glossary (Annex II to the draft ITS) added for your feedback.
We are extremely pleased to note that many of our comments in the response to the EBA Discussion paper dated 4th May 2021 have been considered in the updated draft. We are proposing some changes in the dedicated columns of the data glossary which we are enclosing for your reference. We are also proposing the additional fields as follows: 1. Counterparty Type, Mandatory: Choice: a) Main Borrower; b) Co-Borrower; c) Guarantor; 2. Deceased Date, non-mandatory; 3. Address Status, non-mandatory: Choice: a) Valid; b) Unknown; c) Moved overseas; 4. Landline availability, non-mandatory; 5. Mobile availability, non-mandatory; and 6. Email availability, non-mandatory We have added the above fields to the data glossary with proposed applicability.
3. What are the respondents' views on the content of Template 3? Please provide any specific comment you may have on the data fields in the dedicated columns of the data glossary (Annex II to the draft ITS) added for your feedback.
Again, we are extremely pleased to note that many of our comments have been considered in the updated draft, and we are proposing some changes in the dedicated columns of the data glossary.

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However, we would like to highlight that there appears to be some incompatibility on some of the fields proposed, with the Directive (EU) 2021/2167, Article 2, point 3.

This primarily pertains to some specific fields as follows: 3.10; 3.12; 3.13; 3.20 to 3.28, where this data field is required “only when the categories 'Unlikely to pay that are not past-due or past-due <= 90 days' or 'Past-due > 90 days and <= 1 year' are selected in the field 'Non-performing category'”.

This appears to be incompatible with Article 2, point 3, where it is stated that the Directive is not applicable to credits that are not past due, or are less than 90 days past due or are not terminated in accordance with national civil law.

However, it is important to note that those fields relating to interest rates should be mandatory irrespective of thresholds (proposed changes as per data glossary) in order to be aligned and satisfy the Directive, Article 3 (d) and Article 10, Point 2. (g).

We also believe that the fields 3.17 and 3.18, which references Legal Balance at charge-off date and Charge-off Date, both classified as Dynamic needs further clarification.

We are also proposing the additional fields as follows:

1. Origination Amount, non-mandatory;
2. Original Creditor, mandatory;
3. Loan Status, non-mandatory: Choice: a) Amicable; b) Legal; c) Other;
4. Statue Limitation Date; mandatory; and
5. Legal Dates and Legal information as per Borrower (1.34 to 1.44), applicable for Borrowers with multiple loans, as legal proceedings may be at Loan level rather than borrower level, which is not unusual for the industry.

Furthermore, we also note that the field 3.43 (type of forbearance) and those fields pertaining to arrears management are not fully aligned with the NPL Directive, Article 27 and Article 28 Amendments to Directive 2008/48/EC. We feel this type of information needs to be in alignment and comprehensive to enable NPL Purchasers to accurately calculate prices transparently and fulfill their Regulatory obligations on forbearance and arrears management.

4. What are the respondents’ views on the content of Template 4? Please provide any specific comment you may have on the data fields in the dedicated columns of the data glossary (Annex II to the draft ITS) added for your feedback.

Our comments for each data field have been added in the dedicated columns of the data glossary.

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We are also proposing the additional fields as follows:

1. Year of construction, non-mandatory; and
2. Cash in court, mandatory

5. What are the respondents' views on the content of Template 5? Please provide any specific comment you may have on the data fields in the dedicated columns of the data glossary (Annex II to the draft ITS) added for your feedback.?

Our comments for each data field have been added in the dedicated columns of the data glossary.

We strongly disagree with the changes made to template 5 since the EBA Discussion paper dated 4th of May 2021 and are disappointed that historical collections are being limited to the previous 2 years pre-cut off date aggregated to annual basis and only considers collections from external parties, and more focus has been given to future payment plans agreements.

This is not in alignment with current market practices, as most vendors already provide monthly historical payments, post default and pre-cut off date for at least 12 to 24 months, from both internal and external sources, as the value of this information for the purpose of valuation and pricing is the same and should not be limited to external collections. More recently, we also see the extension of historical payments to 36 months, with some vendors extending this to cover the full period post default, and this in general achieves better prices for the vendor.

On the other hand, more focus has been placed on future payment plans, and unless the portfolio consists of Promissory Notes, which are legally binding on the Borrower and often traded in Italy, there is low certainty that these will materialize and are often ignored by the purchasers.

Where payment plans with borrowers are set up, we often use their historical payment behavior to forecast future collections, rather than relying on their future payment schedule.

Furthermore, historical monthly payments are critical for running statistical models, which the buyers normally use, and limiting these to annual amounts would be detrimental to modelling accuracy and therefore prices paid by purchasers and therefore it would be negative to the industry in general, which is not in alignment with the objective of the Directive.

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We strongly recommend setting the minimum requirements to 36 monthly payments post default and pre-cut off, with the option for the vendor to extend historical payment to All payments post default as these optimize the prices for the vendors and reduces data asymmetry between sellers and buyers, and is more aligned with current market practices.

We also suggest that interim collections post cut-off date and before Binding Offer should also be mandatory for the final qualified bidders of the sales process as this is a strong indicator of the underlying cashflows on portfolio, reduces uncertainty for the buyers and optimizes prices for the vendors.

This is already current market practice with the more sophisticated creditors and regular sellers providing these during the sales process.

An additional point that is not being considered on the Consultation Paper, is whether the sellers should also include "mirror data on the open cases and historical payments" for the closed cases, that would otherwise be part of the portfolio.

Current market practices, from the most sophisticated sellers already provide this information to potential buyers either for the entire period covered of the defaulted population for sale or limiting this information to the last 12 to 24 months period. This part of cashflow is normally estimated by the buyers, and can be difficult to predict accurately.

The addition and availability of this information to buyers would in generally have a positive effect on prices paid for the portfolios, which in turn reduces the gap prices between seller and buyer.

Interim cashflows between cut-off date and Binding Offer, for selected bidders during the sales process, partially addresses the lack of data and historical payments from the "closed cases" population referred above.

For efficiency purposes, we have added a potential collections template to the data glossary spreadsheet which may replace the Template 5 proposed or at least can be used to improve the current template proposed.

6. Do the respondents agree on the structure of Template 2 to represent the relationship across the templates? If not, do you have any other suggestion of structure?

Yes, we do agree.

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7. Do the respondents agree on the structure and the content of the data glossary? Please provide any specific comment you may have on the data fields in the dedicated columns of the data glossary (Annex II to the draft ITS) added for your feedback.
In general, we agree to the structure of the data glossary and have made appropriate comments in the dedicated columns against each field. One of our main concerns is the differentiation on mandatory/non-mandatory based on the balance size of the claim, which adds additional complexity and potential costs to both sellers and buyers to price the portfolios. This is because separate models would need to be constructed for the different populations and also increases time required for due diligence data validation and reconciliation. Data is either available or not available on the creditors systems, and this may actually act as a barrier to both buyers and sellers from participating in NPL sales processes and may also create thresholds effects on NPL Portfolios coming to market, which is not in alignment and spirit of the NPL Directive.
8. What are the respondents' views on the content of instructions?
The content of instructions appears to be fairly clear and comprehensive.
9. Do the respondents agree on the use of the 'No data options' as set out in the instructions?
In general, yes. In particular the fact that the 'no data options' obliges institutions that are not able for various reasons to provide the required information for the data fields that are not mandatory, to explain the reason why. This provides more transparency for data fields that otherwise may have just remained empty. Some of our entities voiced concern that sellers who are not able to fill in all the mandatory fields may be discouraged from selling certain portfolios entirely – which may adversely affect the market. They feel it seems uncertain whether the "no data options" would address those concerns.

10. What are respondents' views on whether the proposed set of templates, data glossary and instructions are enough to achieve the data standardisation in the NPL transactions on secondary markets, or there may be a need for some further technical specifications or tools to support digital processing or efficient processing or use of technology (e.g., by means of the EBA Data Point Model or XBRL taxonomy)?
The proposed set of templates, data glossary and instructions at first glance seem sufficient to achieve data standardization in the NPL transactions on secondary markets, once the proposed changes are considered and implemented. The ITS could foresee or include a review after a certain implementation period, but that is merely from a "could be useful" perspective. No other comments.
11. What are the respondents' views on the approach to the proportionality, including differentiating mandatory data fields around the threshold? Please provide any specific comment you may have on the data fields in the dedicated columns of the data glossary (Annex II to the draft ITS) added for your feedback.
Our comments for each data field have been added in the dedicated columns of the data glossary. We generally reject the application of a proportionality threshold/test on mandatory/non-mandatory data based on loan balance size for the purpose of NPL portfolios pricing and reducing information asymmetries between the NPLs seller and buyer. In the response to the EBA's Discussion Paper on the Review of the NPL Transaction Data Templates of August last year, we took the view that in our opinion the size of the portfolio should not or only minimally impact the need for information in respect of the portfolio. We still maintain that view. Most if not all transactions (unless the portfolio is deemed insignificant to the buyer) require, according to us, a full set of data with sufficient and granular information on all the positions pertaining to a specific NPL portfolio. For the buyer, the size of the institution of the portfolio does not come into play when it comes to the data/information the buyer needs.

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Vendor systems should hold and retain all the data required for their regulatory obligations and therefore creating a threshold that would create additional information asymmetries (more than already present in the current market practice) would in our opinion be going backwards. Additionally, such thresholds create additional cost for both sellers and buyers, and – again – is contradictory to the spirit of the NPL Directive.

NPL buyers rely on granular data from the vendor to run statistical models and establish correct pricing. As already mentioned, vendor systems should either have data, or data is missing, or too costly to capture. Our view is that all or most (90% +) of the data fields proposed by the EBA should be present in the vendor's systems.

Based on this, the only cost that the vendor would require is to establish the SQL query where the correct links are set to the different systems, extract the data and make this available to the buyers (ensuring amongst others correct GDPR data processing). We do not feel this is too onerous a cost to the vendor.

On the other hand, the data templates have already been reduced from 400+ data fields to approximately 140 fields, segmented by Borrower Type and Loan Type and this already addresses the proportionality element required by the NPL Directive. Our existing NPL valuation models would have to be reconstructed, additional processes and procedures implemented with additional resources required for the reconciliation of the different elements of the different populations. This is in actual fact adding additional cost to both sellers and buyers – since both would have to reconstruct their respective models.

In our opinion, once a standard data file, (i.e., SQL query) is developed, it can be used and reused multiple times consistently without additional work for loan instruments irrespective of the balance amounts. Limiting the availability of data will reduce the quality of the valuation and reduce prices.

A differentiation by the size of loans is therefore not something we would propose or feel EBA should implement. A case where proportionality criteria are relevant is the nature of the borrower (retail v. non-retail) and the nature of the loan (secured v. unsecured). This type of segmentation is in alignment with the existing legislative rules in force that subject retail (consumer) and non-retail segments to different types of regulations and regulatory requirements.

We suggest that the NPL data templates be aligned with their respective regulations, i.e., retail with the EU Consumer Directive credit rules, and the non-retail with the respective EU relevant statues e.g., AnaCredit FinRep, etc.

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For the avoidance of doubt, it is the NPL Directive's spirit that vendors provide sufficient information - the Directive (point 36) itself highlights that "*it is legitimate for credit institutions to share borrowers' personal data with prospective credit purchasers*", in order for prospective credit purchasers to make their own assessment on the value of the creditor's rights and be able to make informed choices before entering a transaction.

12. Do the respondents agree with the proposed calibration of 25 000 euros threshold in line with AnaCredit Regulation? If not, what alternative threshold should be introduced, and why?

We do not feel that the proposed calibration of 25 000 euros threshold would advance the NPL Directive objectives positively - as already stated above. On the contrary, we feel that this type of threshold would impact the industry negatively.

The use of the AnaCap balance threshold was introduced for the prudential management of large corporate exposures, which is a different vantage point than using it as a threshold for the NPL secondary market for the pricing of portfolios and balancing data and information asymmetries.

There are clear distinctions of data requirements and regulations between retail (consumers) and non-retail and we feel this offers a better differentiator and is more aligned with current market practices. On this basis, we repel the implementation of a threshold of any value on the basis of loan size.

However, we do believe the application of this threshold could be an effective motivator from a reporting perspective (to the relevant supervisory entities) on the NPL sales traded in the industry. (cfr. Article 22, NPL Directive)

We noted from the responses from our local teams that the proposed threshold elicits very different reactions and sometimes opposite viewpoints depending on either the jurisdiction or the nature of the loans they mainly work with.

Within the secured perimeter for example we see there is strong opposition to any kind of differentiation between secured loans below or respectively above the 25 000 euros threshold – or even to any sort of threshold at all.

There is a real concern that for a secured exposure where the residual gross book value falls below the threshold, yet the collateralized property exceeds that value significantly, we would not be able to obtain quintessential data.

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For the unsecured perimeter, we see that many of our respondents are concerned that 99% of their NPL loans would fall under this threshold and that this threshold would subsequently *de facto* impact on the quality of the data they will receive, the applicability of our existing statistical models, and would thus negatively impact our prices, is contradictory to the currently existing market practices, and in effect would regress rather than progress the NPL industry.

Implementing a threshold of 25 000 euros for retail unsecured would mean excluding comprehensive data for 99% + of the NPL loans trading and would compromise our ability to fairly treat customers within the existing legislation requirements.

The above leads us to believe that differentiation of the data on the basis of such threshold does not make much sense on a European level particularly for the NPL sales and would shoot past the purpose of ensuring a more efficient and harmonized NPL secondary market.

We believe the target audience for the NPL Directive's applicability will be small- and medium-sized transactions (investments), with skewedness to the unsecured retail. Large NPL transactions currently traded (with securities and larger balances) are often placed on the market via third-party consultancy services and would trade under securitization vehicles – thus likely escaping the purview of the NPL Directive.

Our position remains thus that in the current constellation differentiating by the balance size of loans is not desirable and not in alignment with established market practices.

13. What are the respondents' views on the operational procedures, confidentiality and data governance requirements set out in the draft ITS

No specific view or comments. Our assumption is that the developed procedures and requirements will be the standard for NPL transactions.

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