



FAQs on the measures to support bank lending and money market activity



– Have the Eurosystem’s harmonised eligibility criteria for credit claims been changed?

No, the Eurosystem’s harmonised eligibility criteria remain unchanged. The country-specific eligibility criteria are only applicable to additional performing credit claims (i.e. bank loans) that satisfy the specific eligibility criteria announced on 8 December 2011.

– Are the new eligibility criteria for credit claims that satisfy the specific criteria announced on 8 December 2011 (hereunder referred to as “additional credit claims”) country specific?

Yes, the eligibility criteria applicable to additional credit claims can differ across Eurosystem jurisdictions. Additional credit claims must still comply with Article 18.1 of the Statute of the ESCB, providing that all Eurosystem credit operations must be based on adequate collateral, and are thus subject to approval by the Governing Council of the European Central Bank.

– What is the definition of “performing” credit claims?

A credit claim is performing as long as it is not in default or close to default. More precisely, and to put it another way, a loan is non-performing when payments of interest and principal are past due by 90 days or more, in accordance with the Basel II definition of default, or when there are good reasons to doubt that debt payments will be made in full.

– Do all NCBs have to implement this decision?

Each NCB is free to decide whether to accept additional credit claims or not. However, the Eurosystem decides jointly on the implementation of the new country-specific criteria, as the new criteria – although applied at national level – are governed by Article 18.1 of the Statute of the ESCB, stating that Eurosystem liquidity-providing operations must be based on adequate collateral.

– Do the measures announced on 8 December 2011 solely target newly issued asset-backed securities (ABSs), or any outstanding ABSs as well? Will existing ABSs that are restructured in order to meet the new requirements be considered as existing or new transactions?

The issue date is not relevant for ABSs that fulfil the eligibility criteria announced on 8 December 2011, along with all other existing eligibility requirements and hold two “single A” credit ratings from accepted external credit assessment institutions (ECAIs). Hence, the new measure also targets ABSs issued in the past.

Note that ABSs must not only comply with the eligibility requirements referring to credit ratings, but also with the additional eligibility requirements on swap provider restrictions, asset classes, homogeneity of the pool, etc. ABSs that are restructured in order to meet the criteria will be considered new transactions (i.e. they will be subject to the reduced minimum rating threshold of at least two “single A” ratings).

– Has the first-best rating also been changed to at least “single A”?

Yes, ABSs that have a second-best “single A” rating at issuance, and at any time thereafter, are eligible (provided that they comply with the eligibility criteria announced on 8 December and all other existing eligibility requirements). In other words, the ABSs must have at least two “single A” ratings and – in contrast to ABSs that do not fulfil the eligibility criteria announced on 8 December – are not required to have two “AAA” credit ratings at issuance.

– Are only the most senior ABS tranches considered eligible?

Yes, as specified in section 6.2.1 of the "[General framework](#)" the requirement that debt instruments may not afford rights to the principal and/or the interest that are subordinated to the right of holders of other debt instruments of the same issuer, is still applicable.

– Is the simple, transparent and standardised (STS) label as defined in the Securitisation Regulation a collateral eligibility criterion affecting the valuation haircuts for asset-backed securities (ABSs)?

No, the eligibility criteria for ABSs are specified in the “General framework” and the “Temporary framework” for monetary policy instruments. For monetary policy purposes, the Eurosystem accepts a broader range of ABSs as collateral than the subset of ABSs fulfilling the STS requirements. More generally, the ECB considers the Securitisation Regulation and STS requirements as an important step for the Capital Markets Union and the further integration of its financial markets as regards securitisation, by establishing common compliance and transparency standards. In that respect, the ECB has decided that the loan-level data reporting requirements of the Eurosystem collateral framework will converge towards the disclosure requirements and registration process for securitisation repositories specified in the Securitisation Regulation.

– How broadly will the homogeneity criterion be applied? In the case of loans to small and medium-sized enterprises (SMEs), is it sufficient if the asset pool of an ABS consists only of loans to SMEs, or must the assets backing the SME loans (e.g. real estate, lorries, etc.) also belong to the same asset class?

The assets backing the SME loans do not need to be strictly homogenous. As a general rule, if the transaction conforms to the ECB loan-level data reporting template for SMEs, the SME-based ABS transaction is deemed acceptable, provided it fulfils the eligibility criteria (a) to (e) listed in the press release issued on 8 December. For further details on features of the underlying loans, please refer to the SME loan-level template published under the ECB’s ABS loan-level initiative. The reporting template for SMEs also contains dedicated data fields relating to the underlying collateral (Fields CS1 to CS27).

– What definition of SMEs applies (the EU-definition or another definition)?

Further guidance on eligible SMEs is given in the SME loan-level template. Fields AS17 to AS21 relate to specific obligor information. If the underlying portfolio of loans conforms to the SME loan-level template, the SME transaction is deemed acceptable. In general, this effectively corresponds to the EU definition (Recommendation 2003/361/EC).

– Should “loans to SMEs” be understood in the wide or the narrow sense? Are SME leases/ leasing receivables, project finance, etc., acceptable? Are both secured and unsecured SME loans acceptable?

Leasing receivables are not included, whereas unsecured loans may be acceptable. The focus should be on compliance with the SME loan-level template as defined by the ECB under its ABS loan-level data initiative. If all the loans in the transaction in question conform with the information requirements of the said template, the transaction is deemed to fulfil the SME criteria. Leasing contracts fall outside the scope of this template and are thus not eligible. Publication of a template specifically dealing with leasing contracts is expected in due course. Until this publication provides sufficient transparency to the Eurosystem, conditions for the eligibility of financial leases as underlying ABS assets cannot be properly formulated and checked.

– What is the definition of “non-performing loans”? Is a loan that is “behind schedule” still a performing loan? What happens if performing loans are replaced by non-performing loans, or if non-performing loans are added to the pool in the course of the life of an ABS?

A loan is only deemed non-performing if it is in default or close to default. More precisely, a loan is non-performing when payments of interest and principal are past due by 90 days or more, in accordance with the Basel II definition of default, or when there are good reasons to doubt that debt payments will be made in full.

The requirement that the asset pool backing the ABS cannot include non-performing loans applies explicitly at the time of issuance of the ABS, not throughout its entire lifetime. However, non-performing loans may not be used to replace performing loans during the replenishment period, if any. In turn, any arrears in the pool of underlying assets after issuance of the ABS do not necessarily make the ABS ineligible.

– What is the definition of a structured loan?

Structured loans refer to structures involving a senior claim and junior claims vis-à-vis the debtor. The junior claims are subordinated to the senior claim, i.e. all funds received from the debtor will first be used to pay interest and capital to the holder of the senior claim before the junior claims will receive any funds due.

– What is the definition of a syndicated loan?

A syndicated loan is a loan provided to a debtor by a group of lenders in a lending syndicate.

– What is the definition of a leveraged loan?

Leveraged loans are loans provided to companies that already show a considerable degree of corporate indebtedness. Because the target company is already highly leveraged, these loans typically carry a higher risk of default. In business, leveraged loans are primarily used in leveraged buy-outs (LBOs), where a financial investor (usually a private equity fund) invests a small amount of funds, leverages it with borrowed funds and other debt and attains control of a target company.

– What are the detailed requirements for the servicing continuity provisions? Is a back-up servicer required or do rating triggers for the appointment of a back-up servicer suffice? What are the minimum criteria?

Effective back-up servicer provisions should be reflected in the legal documentation to ensure that a default by the servicer does not lead to a termination of servicing, which is vital for the ABS transaction.

The transaction documentation must therefore define at least triggers for the appointment of a back-up servicer. The provisions should include a high-level action plan outlining the operational steps to be taken once a back-up servicer appointment event takes place (e.g. a breach of the rating triggers) and describing how the administration of the loans should be transferred, e.g. as regards IT systems. An explicit back-up servicer need not be nominated at the outset.

– In the case of an already eligible ABS that currently has a first-best rating and a second-best rating of “single A”, must the back-up servicer provisions be reflected in the legal documentation, although this is not currently required?

No, all ABSs that were eligible before the announcement of 8 December remain eligible without any need for modifications, at least until further notice.

– Are French ABSs backed by loans with guarantees equivalent to residential mortgage-backed securities (RMBSs) eligible?

Yes, provided that they fulfill the requirements prescribed in section 6.2.1 of the ["General framework"](#). They could also be accepted as collateral under the temporary collateral framework if, in addition, the eligibility criteria of the ["Temporary framework"](#) are met. In addition and as a general rule, if all the underlying loans comply with the Eurosystem RMBS loan-level data template, the RMBS transaction is deemed to fulfill the Eurosystem RMBS definition.

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