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Lessons learnt from creating the first EBA NPL transaction templates

Overview

The new EBA NPL transaction templates are expected to become mandatory for European banks for non-performing loan (NPL) portfolio sales after the publication of the implementing technical standards in the official journal of the European Union later in 2023.¹ We report on our experience in transforming the data shared with investors as part of actual NPL portfolio sales on the NPL Markets transaction platform.²

We found the following aspects are important for sellers to consider.

- 1.** The EBA NPL templates are establishing a common standard for all types of NPL portfolio sales across many jurisdictions. As such, they will differ substantially from non-standardised data used in prior transactions. Most selling banks will need to provide data fields that they did not provide before and some of their previously provided information is not part of the EBA NPL templates.
- 2.** Sellers should expect that there are a few mandatory data fields that they will not have readily available. EBA has clarified that the NPL templates are not a regulatory reporting requirement and the non-delivery of certain mandatory fields will likely not result in sanctions or penalty fees. It remains to be seen, however, how competent authorities in each jurisdiction will monitor the new templates and react to potential non-compliance.
- 3.** Creating investor data tapes in the EBA NPL template format is not a particularly complex, time consuming nor expensive task when compared with the creation of investor data tapes currently used by sophisticated sellers. Data mapping software can help with the creation of the EBA NPL template and running detailed validation checks which means that the process of creating standard validated template outputs, after the initial setup, can be largely automated and near instant.

¹ eba.europa.eu/regulation-and-policy/credit-risk/implementing-technical-standards-npl-transaction-data-templates

² nplmarkets.com/en/news/article/final-draft-implementing-technical-standards-from-eba-for-npl-transaction-data-templates

Case Study: Secured NPL Portfolios

We transformed the data tapes of portfolios sold to investors by several European banks on the NPL Markets transaction platform. The portfolios are a mix of unsecured loans, loans with personal and other financial guarantees, and mortgage loans with property collateral. During the transaction preparation phase of selling secured portfolios with mortgages and guarantees we typically receive and review around 400 to 600 data fields from the bank's source systems, spread across 15 to 20 database tables, with roughly 100 to 150 data fields each containing the counterparty, loan, collateral and historical collection information.

After creating the investor data tapes, 200 to 250 data fields across 10 to 15 tables were shared with investors of which 75 to 100 data fields relate to historical collections. In contrast, the EBA NPL templates define 124 unique data fields across 9 tables plus 36 or 72 fields related to monthly historical collections over the last 3 years. Hence, for complex secured portfolios investors currently receive more data fields than proposed by the EBA NPL templates. This contrasts with some industry comments that claimed that the proposed templates are too extensive.

Having identified the relevant source tables and data fields, the following data processing steps are required to create the EBA NPL templates.

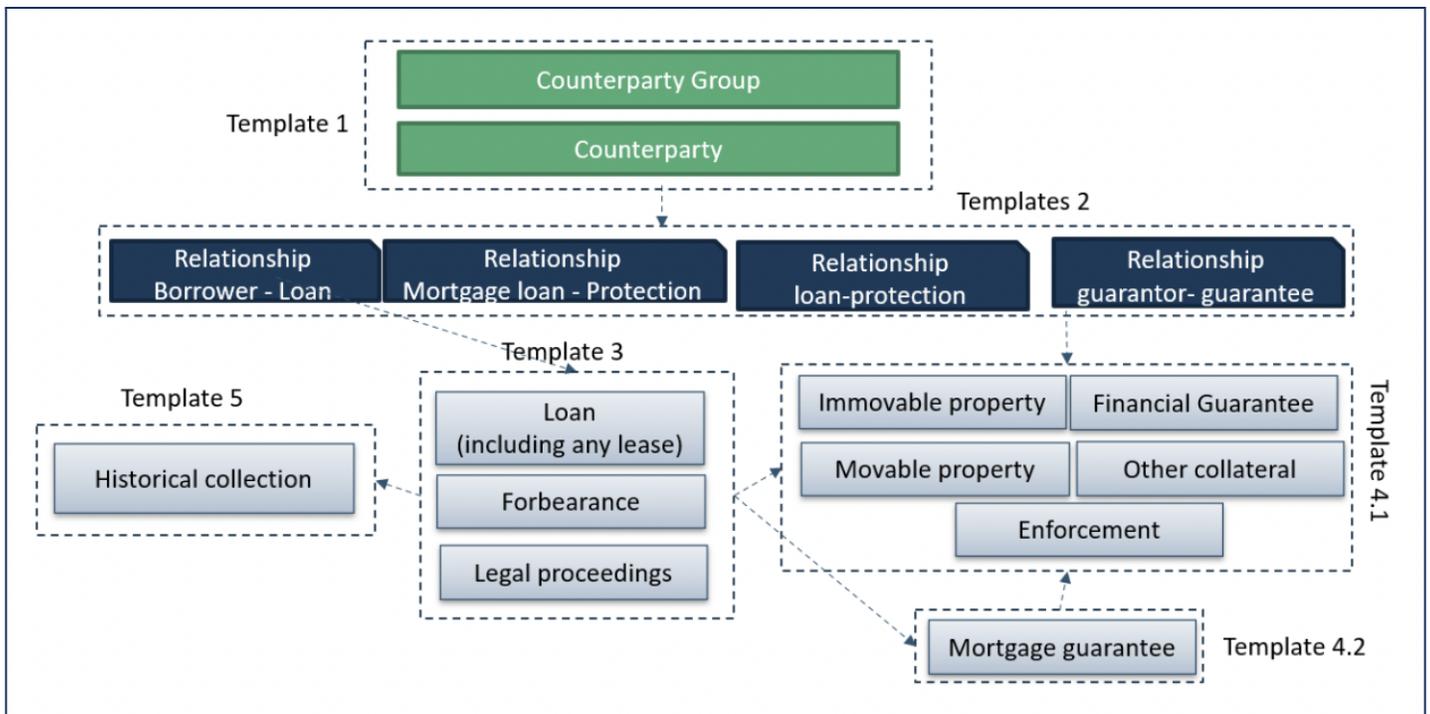
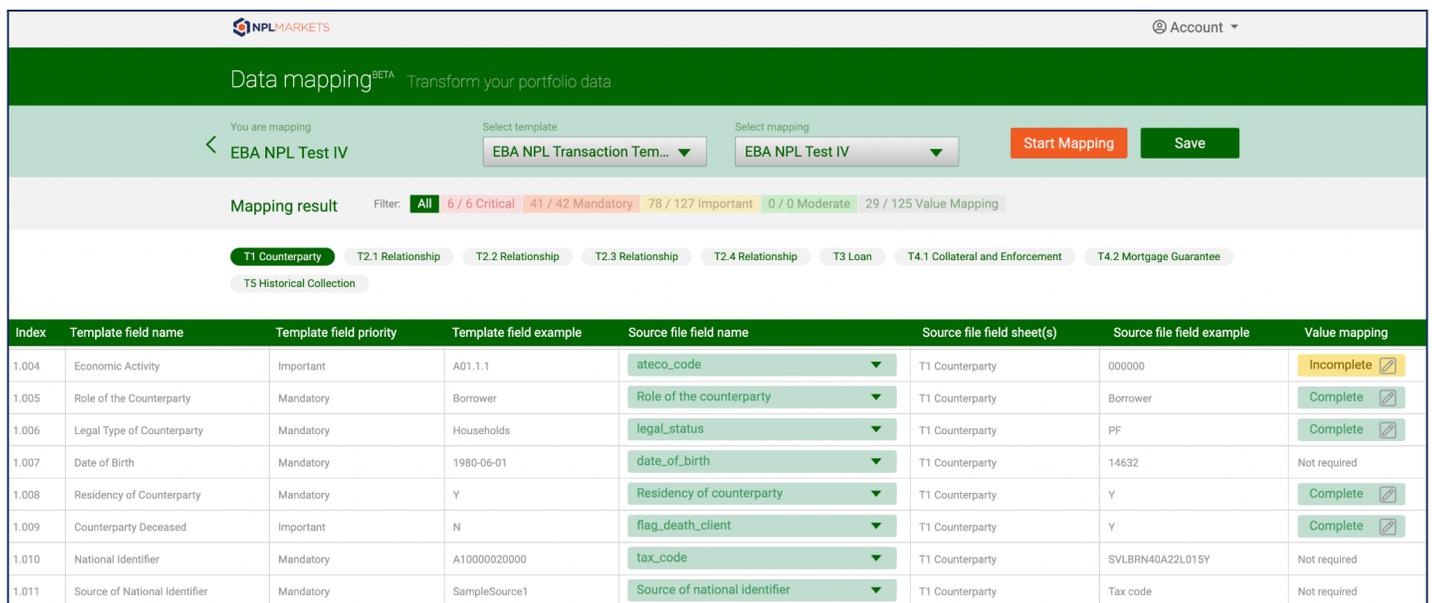


Figure 1: EBA NPL transaction template structure. Source: EBA ITS 2022

1. **Reshaping the relational structure.** In this step we concatenate and join information from different source tables to create the required EBA NPL relational database structure. The main target tables are: T1 Counterparty which is created as a concatenation of borrowers, co-borrowers, guarantors, and co-guarantors. T3 Loan with the information on loans, leases, or other receivables including some legal process information and forbearance measures. T4.1 Collateral and enforcement which includes property and non-property collateral, guarantees and information on their respective enforcement status and T5 Historical Collections. In addition, the relational structure is summarised in the relationship tables T2.1 to T2.4 and T4.1 (Figure 1).
2. **Calculated data fields.** In this step we create certain calculated or derived fields that may not exist in the required form in the source data. For example, the Counterparty table does not include data fields for the email or phone number of the borrower, but instead uses a flag indicating whether these data points are available. These flags are then calculated based on the available source data. The fields related to legal procedures and forbearance measures will likely require bespoke and more complex calculation steps. For example, the bank may have a standalone table for payment plans agreed with the borrower after default, detailing the time and amounts of the agreed payments. The details of the agreed payments are not part of the EBA NPL template, but the field 3.039 Type of Forbearance Measure could be set to “rescheduled payments”.



Index	Template field name	Template field priority	Template field example	Source file field name	Source file field sheet(s)	Source file field example	Value mapping
1.004	Economic Activity	Important	A01.1.1	ateco_code	T1 Counterparty	000000	Incomplete
1.005	Role of the Counterparty	Mandatory	Borrower	Role of the counterparty	T1 Counterparty	Borrower	Complete
1.006	Legal Type of Counterparty	Mandatory	Households	legal_status	T1 Counterparty	PF	Complete
1.007	Date of Birth	Mandatory	1980-06-01	date_of_birth	T1 Counterparty	14632	Not required
1.008	Residency of Counterparty	Mandatory	Y	Residency of counterparty	T1 Counterparty	Y	Complete
1.009	Counterparty Deceased	Important	N	flag_death_client	T1 Counterparty	Y	Complete
1.010	National Identifier	Mandatory	A10000020000	tax_code	T1 Counterparty	SVLBRN40A22L015Y	Not required
1.011	Source of National Identifier	Mandatory	SampleSource1	Source of national identifier	T1 Counterparty	Tax code	Not required

Figure 2: Data mapping tool used to create and validate transaction data tapes in the EBA NPL template format. Source: NPL Markets.

3. **Field name and value mapping.** Once the data is in a suitable relational structure and all required fields have been identified or calculated, the reshaped source data needs to be aligned with the field names and formats used in the EBA NPL templates. Figure 2 shows the NPL Markets Data Mapping tool which helps users to map their data to a series of different data templates which now includes the EBA NPL transaction template in addition to templates for the regulatory disclosures of securitisation transactions (ESMA and FCA templates) or other regulatory or bespoke reporting templates. Each EBA NPL target field is matched with the correct source field and for list fields each available value is matched with the correct target value defined by the EBA NPL template.
4. **Adding additional fields.** The EBA NPL template allows for additional data fields to be provided. We expect that banks will either use this option and add data fields and tables to the EBA NPL templates or provide a separate non-standard loan data tape containing additional information. Examples for potential additional fields are the payment plan information mentioned above, additional details on court procedures, URLs or coordinates to identify property collateral on an interactive map, or personally identifiable information like address, email, and phone numbers. The latter may be added in the final version of the data tape and be shared with the ultimate buyer only.
5. **Data quality checks.** Once the field and value mapping is completed, the mapping is saved and the standardised template outputs are generated. At this stage, with the use of the Data Mapping tool, we conduct thorough availability and consistency checks on the output data reporting missing values, outliers, duplicates in the data keys, or relational inconsistencies. Detailed data mapping and data quality reports complete the generation of the EBA NPL transaction templates.

In conclusion, we successfully transform loan data tapes used in actual NPL transactions into the format of the EBA NPL templates required by the upcoming ITS. Data mapping tools can support and accelerate the process of creating compliant templates including validation, but banks should expect some manual data preparation steps as summarised above. Once the raw data is gathered, depending on the asset class and complexity of the source data, the preparation of the first EBA NPL template is expected to take a few days and can sometimes be completed within hours. In our experience with current market transactions, all data tapes seen by us to date are missing some mandatory data fields. We expect banks to try to fill the gaps as much as possible, but also expect that at least initially transactions will be done with some mandatory data fields missing.

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