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DUTCH SECURITISATION ASSOCIATION

Discussion Paper

Securitisations in the Savings and Investment Union

Financing Europe's Ambitions

strong banks
strong society

The importance of securitisation for the Dutch economy

A competitive and growing economy requires investment by consumers, businesses and governments. This calls for a diverse range of financing products. Given the growing need for financing, Europe needs to ensure securitisations can be used more effectively as a financial instrument to unlock this private capital.

Securitisations are still viewed with caution because of their role in the 2008 financial crisis. In the United States in particular, this product caused major problems at the time. Risks were often unclear, and banks transferred too much risk to the securitisation and ultimately to the end investor. In addition, different securitisations were combined into new securitisations. Since the crisis, numerous improvements have been introduced (see box), prohibiting such practices and significantly improving the transparency of securitisations.

Despite these improvements, the rules for securitisations are currently stricter for issuers and investors than for other financial products, leaving the securitisation market in the EU severely underused.

Why are securitisations important?

Europe's ambitions on competitiveness, defence, housing and energy transition require unprecedented levels of investment. The recent report of Oliver Wyman estimates that since the 2024 Draghi report, financing needs, to support Europe's various ambitions (competitiveness, defence, energy independence), have increased to around € 1.4 trillion in yearly additional financing [1]. In practical terms, this includes, for a significant part, mortgage lending and SME loans, for instance for home renovations to improve energy efficiency, and traditional bank loans to start or expand SME businesses. These financing needs require the mobilisation of private capital. Banks, pension funds, insurers and other investors have a key role to play in providing the credit needed by consumers and businesses.

To meet EU's financing needs, efficient capital markets are required, together with sufficient financing capacity among lenders. Securitisation can increase available capital, broaden financing options and strengthen competition among lenders, which may contribute to more attractive financing conditions for customers. Promoting an efficient European securitisation market is, therefore, an important instrument for financing

How securitisations changed in recent years?

Since 2008, significant improvements have been introduced to prevent a recurrence of the problems seen during the financial crisis. These include:

1. **EU-label STS –** The EU has introduced a label for simple, transparent and standardised securitisations (STS). As a result, investors have greater clarity about the risks associated with purchasing securitisations.
2. **Risk retention –** Originators are required to retain at least 5% of the risk in a securitisation. This ensures they remain aligned with investors and maintain a strong incentive to keep the underlying risk low.
3. **Ban on re-securitisations –** Securitisations may no longer be repackaged into new securitisations and combined with other securitised products.

1 EBF Oliver Wyman Report on European Competitiveness.

Europe and should be an integral part of the Saving and Investment Union [2].

Securitisations enable investors to invest in credit financing by purchasing loans from banks and other non-bank lenders. This gives banks and lenders additional balance-sheet capacity and capital for new lending. Securitisation also makes specialised types of financing easier to trade among investors. Hamburg Commercial Bank, for example, acquired approximately USD 1 billion in shipping loans through securitisations from NIBC Bank [3].

Securitisation is not only relevant for financing growth, but also for supporting the green transition. Green securitisations can help make the European economy more sustainable by meeting demand for green investments. In 2024, 12,500 solar panel systems were financed in Germany through one securitisation [4]. The Netherlands is a frontrunner in the European green securitisation market, accounting for more than half of green issuances sold since 2016 [5].

The European securitisation market today

Since 2008, the European securitisation market was reduced by around 75% to approximately EUR 540 billion [6]. This is a considerate amount, but small compared to other jurisdictions where substantial securitisation markets exist, such as the United States, Canada, Australia, China and Japan.

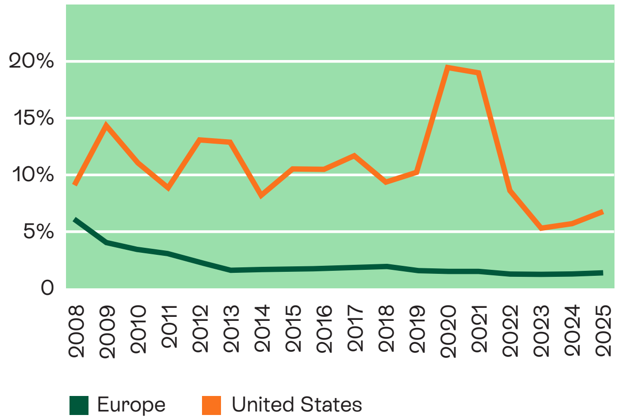
Banks are reluctant to issue securitisations. This is because, in Europe, the rules for securitisation are stricter than those for other financial products. The legislative changes described above, helped create a safe European securitisation market. However, in addition, many additional requirements have been introduced for issuers and investors in securitisations, including significantly higher capital and liquidity requirements for banks and insurers.

Additionally, investors have withdrawn from the securitisation market in recent years. The current due diligence obligations and transparency requirements for investors and issuers under the EU Securitisation Regulation are complex and often inefficiently designed. This concern is widely shared across the market. In a European Commission report, 80% of surveyed investors and lenders indicated that the legislation has not contributed to promoting credit provision.

Against this backdrop, the current review of the EU securitisation framework offers an important opportunity to remove unnecessary barriers while preserving the safeguards introduced after the financial crisis.

2 See also our CMU position paper.
3 NIBC reaches agreement on the sale of its shipping portfolio to Hamburg Commercial Bank|NIBC Bank.
4 ENPAL secures € 356 million debt commitments from Citi & M&G Investments for first residential solar securitization.
5 Sterke toename in groene securitisaties in 2023 (dnb.nl).
6 TRV article: The EU securitisation market – an overview.

Annual securitisation issuance as a percentage of GDP



NVB position on trialogue negotiations of the Securitisation Package

Although post-2008 reforms have made securitisations simpler and more transparent, this progress is not fully reflected in their supervisory and prudential treatment. Correcting the unequal treatment of securitisations compared to alternative instruments is relatively straightforward, and essential. The securitisation package offers a concrete opportunity to improve the regulatory and prudential framework. Our recommendations for the ongoing trialogue negotiations are set out below.

SECR:

We support a more principle-based approach for due diligence. In this regard we align with the Council and EP amendments that make the removal of STS verification conditional on the use of a Third-Party Verifier. We also support their efforts to introduce the concept of repeat transactions benefitting from lighter due diligence.

The EC introduced a specific sanction regime for investors of securitisations. We strongly object to the idea that this product should have a different sanction regime compared to other financial instruments and support the Council position of removing these proposals. In this regard we also support the Council in their position that any change of the definition of Public Securitisation would only cause unnecessary complexity.

We support the simplification of reporting templates (cutting 35% of data fields) and a dedicated, simplified template for private transactions. We agree with the positions of both Council and EP to expand the concept of highly granular pools reporting aggregate data. However, we warn against requiring private transactions to report to a Repository.

Regarding the unfunded credit protection, the EC, Council and EP define detailed and complex requirements for insurance companies to be eligible to provide Unfunded Credit Protection for STS synthetics. We find that such requirements are disproportional and will undermine the return of insurers investing in these products.

CRR:

A crucial element to revitalise the EU securitisation market is the adjustment of the prudential treatment. We caution against a differentiated treatment of the originator and investor position. Such differentiation creates additional complexity without clear merit, and undermines securitisations being an attractive financial instrument for both originators and investors. Therefore, we support the Council position that there should be no such differentiation in prudential treatment.

Similar to the definition of "public" securitisation, the definition of the Senior Tranche of a securitisation should be left unchanged (in line with the EP and Council position). The current definition is sufficiently clear, and any further changes would only create additional complexity.

We support the lowering of the p-factor especially for Senior and/or STS positions. While it is difficult to calculate the exact implications of all the individual changes proposed by the Council and EP, we support the general trend of lowering this factor. We also support the move to make the Risk-Weight floors more risk sensitive. However, in this regard the proposed 5% remains relatively high. Lowering the floor under the IRBA and ERBA to 4% would be a more significant improvement which would encourage more (RMBS) transactions, helping to revitalise this part of the securitisation market.

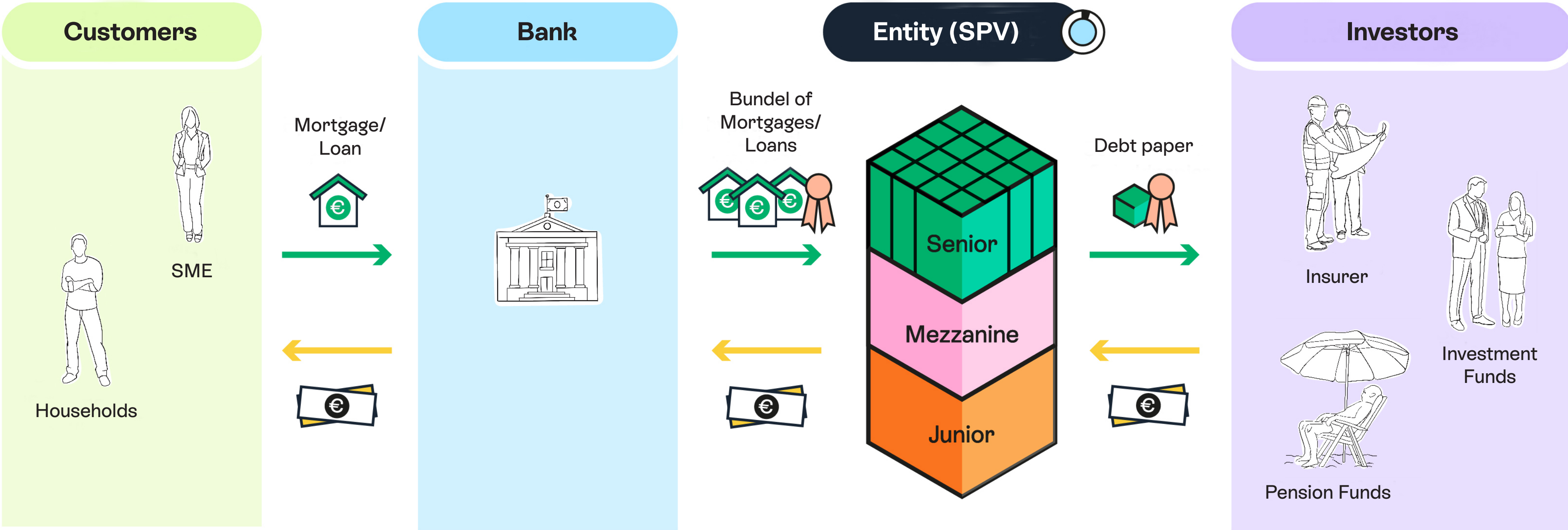
With regards to the changes to Credit Conversion Factors, we find this best to be set at 100%, except cancellable cash advance facilities which can be set at 0%, and with securitisation warehousing at 40%. This presents a good compromise between the various EC, EP and Council positions.

Finally, we agree with the technical amendments to the NSFR, and a clear grandfathering regime of existing securitisations, as introduced by the EP.

We emphasise the importance of reaching a trialogue agreement that delivers clear improvements to the EU securitisation market and removes the undue regulatory and prudential stigma that still surrounds this instrument. Revising the prudential treatment and legal framework for securitisations would help bring issuers and investors back to the market, give it the momentum needed to mobilise more private financing for the economy and support EU's wider ambitions.

How does a securitisation work?

Mortgages, corporate loans and project finance consist of money that is often tied up for a prolonged period in a financed property, company or project. These loans are difficult to trade individually, partly because of their large size and limited risk diversification. This means that the financing remains on the balance sheet of the lenders, usually banks. Securitisation bundles such loans into a tradable product. In this way, non-tradable loans become tradable and investable.



5%

Risk Retention
Banks are required to retain at least 5% of the risk of a securitisation.

EU STS Label
This label requires a simple and standardised design of the securitisation with transparent information on the underlying loans. This provides investors with greater clarity about the returns and risks associated with the securitisation.

The purpose securitisation

More financing capacity for lenders: Banks and other lenders use securitisation to sell part of their outstanding loan portfolios to professional investors. This process frees up capital and balance-sheet capacity, enabling these lenders to provide new loans.

More investments by institutional investors: Securitisation turns a pool of 'fixed' loans into a tradable product. This enables institutional investors, such as pension funds and insurers, to invest in lending to consumers and businesses. Securitisation is therefore an instrument for deploying the existing capital held by pension funds, insurers and other investors more effectively for credit provision.

More lending to consumers and businesses: The benefits of securitisation described above mean that more funding becomes available to finance the necessary investments and the sustainability transition of the Dutch economy.

A Special Purpose Vehicle: what is it?

When a lender, such as a bank, wants to sell a pool of loans through securitisation, it establishes a special entity. This entity, known as a Special Purpose Vehicle (SPV), purchases the loans from the bank. The SPV is an independent limited liability company that purchases the loans from the bank. As a result, the loans are removed from the bank's balance sheet, creating room for new lending. The SPV finances the purchase of these loans by issuing debt securities. The loans themselves remain with the SPV. The SPV's debt securities are purchased by professional investors, who in effect invest in the pool of, for example, mortgage or SME loans.

Nothing changes for the customer. The bank remains responsible towards the customer, and all communication continues through the agreed channels. The same applies to interest and principal repayments: the customer pays these to their own bank, which then transfers them to the SPV.

Structuring a securitisation

The SPV owns the pool of loans. Therefore, it also bears the risk that loans may not be repaid in full, or at all. Normally, the bank would hold a buffer for this risk. The SPV manages this as follows. It issues three, or sometimes more, distinct types of debt securities, referred to in the visual on page 5 as Senior, Mezzanine and Junior. These types of debt securities are known as the tranches of the securitisation. The cash flows from interest and repayments on the underlying loans are allocated across the different types of debt securities. Each type of debt security has its own risk and return profile. Investors purchase the type of debt security that matches their investment strategy. In doing so, they assume part of the risk and receive a specific share of the interest and repayments from the pool of loans.

Characteristics of European securitisations

A securitisation in Europe always consists of a pool of one type of loan, originating from a single country, or underwritten on the basis of comparable criteria. For example, it may consist only of a pool of mortgages or only of corporate loans from the Netherlands. Where possible, these loans must be secured by collateral and may not contain complex financial structures. The debt security with the lowest risk profile in a securitisation, the senior tranche, is regarded as a very safe investment and is therefore attractive to pension funds, insurers and money market funds.

To ensure that the bank that originated the loans does not sell too many high-risk loans into a securitisation, it must retain part of the securitisation risk itself. This ensures that the bank keeps an interest in the securitisation functioning properly and not containing excessive risk.