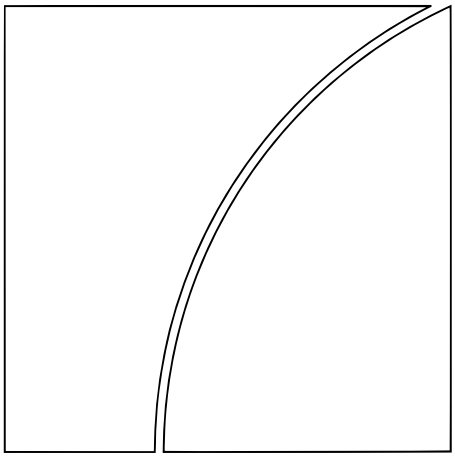
Basel Committee on Banking Supervision

CRE

Calculation of RWA for credit risk

CRE45

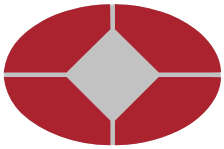


Securitisations of non-performing loans

This chapter describes how to calculate capital requirements for exposures to securitisations of non-performing loans.

Version effective as of 01 January 2023

First version in the format of the consolidated framework, introduced to give effect to the treatment of exposures to securitisations of non-performing loans published on 26 November 2020.



BANK FOR INTERNATIONAL SETTLEMENTS

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45.1

A non-performing loan securitisation (NPL securitisation) means a securitisation where the underlying pool's variable W, as defined in CRE41.6, is equal to or higher than 90% at the origination cut-off date and at any subsequent date on which assets are added to or removed from the underlying pool due to replenishment, restructuring or any other relevant reason. The underlying pool of exposures of an NPL securitisation may only comprise loans, loan-equivalent financial instruments or tradable instruments used for the sole purpose of loan subparticipation as referred to in CRE40.24(2). Loan-equivalent financial instruments include, for example, bonds not listed on a trading venue. For the avoidance of doubt, an NPL securitisation may not be backed by exposures to other securitisations.

45.2

National supervisors may provide for a stricter definition of NPL securitisations than that laid out in CRE45.1. For these purposes, national supervisors may:

1. raise the minimum level of W to a level higher than 90%; or
2. require that the non-delinquent exposures in the underlying pool comply with a set of minimum criteria, or preclude certain types of non-delinquent exposures from forming part of the underlying pools of NPL securitisations.

Without prejudice to the foregoing, national supervisors should scrutinise NPL securitisations to prevent any instances of regulatory arbitrage. In particular, national supervisors should preclude transactions executed with the main purpose of reducing the capital charge on the non-delinquent exposures in the underlying relative to the 100% risk weight on the senior exposure to the NPL securitisation referred to in CRE45.5.

45.3

A bank is precluded from applying the SEC-IRBA to an exposure to an NPL securitisation where the bank uses the foundation approach as referred to in CRE30.35 to calculate the KIRB of the underlying pool of exposures.

45.4

The risk weight applicable to exposures to NPL securitisations according to SEC-IRBA (CRE44), SEC-SA (CRE41) or the look-through approach in CRE40.50 is floored at 100%.

45.5

Where, according to the hierarchy of approaches in CRE40.41 to CRE40.47, the bank must use the SEC-IRBA or the SEC-SA, a bank may apply a risk weight of 100% to the senior tranche of an NPL securitisation provided that the NPL securitisation is a traditional securitisation and the sum of the non-refundable purchase price discounts (NRPPD), calculated as described in CRE45.6, is equal to or higher than 50% of the outstanding balance of the pool of exposures.

45.6

For the purposes of CRE45.5, NRPPD is the difference between the outstanding balance of the exposures in the underlying pool and the price at which these exposures are sold by the originator to the securitisation entity, when neither originator nor the original lender are reimbursed for this difference. In cases where the originator underwrites tranches of the NPL securitisation for subsequent sale, the NRPPD may include the differences between the nominal amount of the tranches and the price at which these tranches are first sold to unrelated third

parties. For any given piece of a securitisation tranche, only its initial sale from the originator to investors is taken into account in the determination of NRPPD. The purchase prices of subsequent re-sales are not considered.

45.7

An originator or sponsor bank may apply the capital requirement cap specified in CRE40.54 to the aggregated capital requirement for its exposures to the same NPL securitisation. The same applies to an investor bank, provided that it is using the SEC-IRBA for an exposure to the NPL securitisation.